United. Redefined. Harnessing the potential.

DAIICHI SANKYO CO., LTD

Annual Report **2007**

Daiichi-Sankyo

Profile

On September 28, 2005, Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. established DAIICHI SANKYO COMPANY, LIMITED as a joint holding company to lead their full integration—the first step to establish the DAIICHI SANKYO Group's global leadership in pharmaceutical innovation.

DAIICHI SANKYO emerged as a single organization on schedule in April 2007, ready to harness the global potential of its unified expertise.

Through innovative R&D focused on first-in-class and best-in-class drugs, we contribute to the enrichment of quality of life for people worldwide by responding to their medical needs with new solutions.

Dedicated to meeting unanswered needs

Corporate Slogan

Creating hope in patients' lives

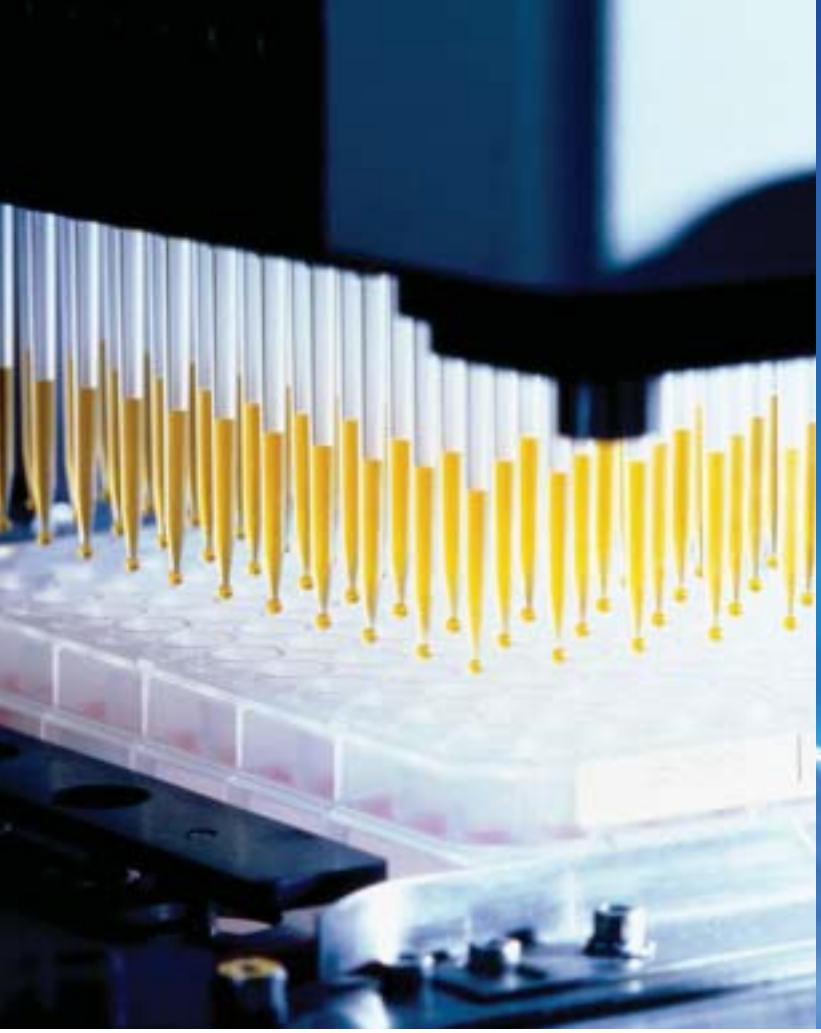
We are a global leader in pharmaceutical innovation, dedicated to improving health and adding to the balance of life for patients worldwide. By continuing to improve our research and development processes, we strive to discover and develop new therapies that address unmet medical needs. We take our responsibility to our patients seriously, and we are committed to being a trusted partner in helping patients focus on improving their health so they can better balance their lives.

At DAIICHI SANKYO, we do more than develop pharmaceuticals,

we create hope in patients' lives.

Contents

Forward-Looking Statements
This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from the information available to the Company at the time of publication. Certain risks and uncertainties could cause the Company's actual results to differ from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and foreign currency fluctuations.



Focused on finding novel solutions

Our Eight Commitments

To realize our corporate vision, as we keep our mission in mind, we have identified three directives for action and eight commitments that each member of the DAIICHI SANKYO Group should use as the basis for making proper value judgments.

The three directives for action are “aspiration for innovation,” “good faith,” and “enthusiasm.” “Aspiration for innovation” is the wellspring of our being.

Also, “good faith” is a duty we must fulfill, and “enthusiasm” is a quality our actions should have.

Based on these three directives for action, we have formulated eight commitments. When making judgments, each member of the DAIICHI SANKYO Group should go back to these three directives for action and eight commitments before embarking on a course of action.

Aspiration for Innovation “What We Are All About”

1. To create first-in-class and best-in-class drugs
2. To take a global perspective and respect local values
3. To have academic curiosity and foresight

Good Faith “Our Duty”

4. To provide high-quality medical information
5. To provide a stable supply of high-quality pharmaceutical products
6. To be a trusted medical partner

Enthusiasm “Our Activities”

7. To express a strong desire to achieve our goals
8. To act as professionals and demonstrate strong teamwork

Mission

Enriching the quality of life around the world through innovative pharmaceuticals

Progress in medical technology and the pharmaceuticals that mankind has created have saved the lives of many people and contributed to making people healthier.

However, there are many diseases for which treatments are still insufficient or for which no treatments have been developed. What is needed are ways of treating and preventing these diseases as well as offering treatments that are suited to the special characteristics of individual patients. Society expects pharmaceutical companies, which play a major role in medical treatment, to address and find solutions for these needs. It is our mission to respond to these expectations of society.

The corporate mission of DAIICHI SANKYO is **"To contribute to the enrichment of quality of life around the world through the creation and provision of first in-class and best-in-class drugs."**

To fulfill this mission, which expresses clearly the reason for our existence, we of DAIICHI SANKYO must have a strong sense of what our mission is and spare no effort in responding to the expectations of society.

Consolidated financial highlights

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007 (Fiscal years 2005 and 2006)

	Millions of yen		Millions of U.S. dollars
For the year:	2006	2007	2007 *
Net sales	925,918	929,506	7,877
Operating income	154,728	136,314	1,155
Net income	87,693	78,550	666
Overseas sales	307,265	356,700	3,023
Overseas sales to net sales (%)	33.2	38.4	38.4
R&D expenses	158,716	170,662	1,466
R&D expenses to net sales (%)	17.1	18.4	18.4
Purchases of property, plant and equipment	35,376	46,284	392
Depreciation	41,129	39,986	339
At year-end:			
Total assets	1,596,127	1,636,835	13,871
Interest-bearing debt	20,648	10,234	87
Net assets	1,237,529	1,272,148	10,781
Per share data (yen and U.S. dollars)**:**			
Net income	¥119.49	¥107.75	$0.91
Cash dividends	25.00**	60.00	0.51

* The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥118=US$1.00, the approximate exchange rate prevailing on March 31, 2007.

** The company paid ¥25 per share as an interim stock transfer payment in December 2005, instead of the interim dividend paid.

	FY2005	FY2006		FY2009
Net sales	¥925.9 billion	¥929.5 billion	→	¥960.0 billion
Operating income margin	16.7%	14.7%	→	25%
Overseas sales to net sales	33.2%	38.4%	→	40% or more
DOE (Dividend on Equity)	2.9%	3.5%	→	5% or more

Building a future at the forefront of global **pharmaceutical innovation**

Current estimates suggest that treatment methods have been established for less than one-half of the more than 10,000 diseases known to science. There is a need for new drugs to resolve these unmet medical needs, and for improved drugs to support even better treatments for diseases that are already understood. Our greatest mission as a pharmaceutical company is to develop outstanding new drugs and deliver them to patients as quickly and as widely as possible. We exist to meet the universal desire of all people to live and be healthy.

The Japanese pharmaceutical industry has already developed many technologies and produced research findings that are used throughout the world. However, Japanese pharmaceutical companies have received little recognition, and their international presence is still limited. Our vision is to establish a strong presence in the international arena as a **Global Pharma Innovator**, by consistently developing new world-class drugs, and manufacturing and marketing them through our own hands.

After announcing the basic agreement on the merger in February 2005, and establishing the holding company DAIICHI SANKYO CO., LTD in September of that year, we continued to prepare for full integration. The process moved forward on schedule, and in April 2007 we made a new beginning as the DAIICHI SANKYO Group. This, however, is not our goal. It is our starting point.

With the completion of the merger, we have laid the foundations for our future as a **Global Pharma Innovator**. DAIICHI SANKYO's mission is to contribute to the enrichment of quality of life around the world through the creation and provision of innovative pharmaceuticals. We can now accelerate our efforts to improve our corporate value by tirelessly working toward this goal.

We look forward to your continued support.

Kiyoshi Morita

Representative Director and Chairman

To our stakeholders

Our New Beginning as the DAIICHI SANKYO Group

DAIICHI SANKYO CO., LTD. was created through the merger of two of Japan's oldest pharmaceutical companies: Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. Our goal now is to build a solid presence for the new company in international markets as a **Global Pharma Innovator**.

The merger process began with the establishment of a holding company on September 28, 2005. In the 18 months since, we have prepared for the full integration of our organizations in Japan and overseas. In the area of R&D, we unified our decision-making system and pipelines in October 2005, and in fiscal 2006 we introduced new structures for our business operations in the U.S. and Europe. Changes within Japan have included the spin-off of non-pharmaceutical businesses from the Group, workforce resizing and the establishment of function-based subsidiaries. Having completed this restructuring, we can now concentrate our management resources into the pharmaceutical business.

I am pleased to report that these preparatory tasks were accomplished on schedule, and that we were able to complete the merger and make a new start as the DAIICHI SANKYO Group in April 2007.

Business Performance in the Year Ended March 31, 2007

The world's major pharmaceutical markets were affected by government efforts to reduce health expenditure, and the overall trend was toward slower growth. DAIICHI SANKYO's net sales, although affected by the spin-off of non-pharmaceutical businesses from the Group, increased by 0.4% year on year to ¥929.5 billion.

In the Japanese prescription drug market, the government took various steps to reduce spending on pharmaceuticals, including cuts in reimbursement prices under the official National Health Insurance (NHI) scheme. Despite an increasingly challenging market environment, however, we were able to increase our net sales by 0.5% to ¥433.4 billion. Factors contributing to this growth included substantially higher sales of the antihypertensive agent Olmetec®, and increased sales of the non-steroidal analgesic and anti-inflammatory agent Loxonin® following the introduction of new dosage forms.

Our overseas pharmaceutical operations benefited from a sharp increase in sales of *Olmesartan*, and sustained growth in sales of the antihyperlipidemic agent WelChol®, the iron deficiency anemia drug Venofer® and the broad-spectrum antibacterial agent *Levofloxacin*. These trends offset a significant reduction in raw material exports of the antihyperlipidemic agent *Pravastatin*, the U.S. patents for which have expired, and net sales increased by 16.8% to ¥338.0 billion.

In the OTC segment, the acquisition of all shares in Zepharma Inc. in April 2006 helped to produce a dramatic increase in net sales, which were 71.9% higher year on year at ¥47.9 billion.

Takashi Shoda,
Representative Director, President and CEO

John C. Alexander
Chairman of GEMRAD

Operating income declined by 11.9% year on year to ¥136.3 billion. This lower result reflects accelerated efforts to expand the Group's overseas business infrastructure, especially in the U.S., and increased R&D expenditure brought by progressing development of global products and strategic alliances. The restructuring of our Group companies was accompanied by business restructuring to focus resources on the pharmaceutical business. This resulted in extraordinary gains of ¥59.3 billion from sales of non-pharmaceutical subsidiaries. However, there were also extraordinary losses, including ¥82.4 billion for business integration, such as costs relating to the workforce resizing and the integration of IT systems, and ¥3.6 billion related to operational reorganizing. As a result, net income was 10.4% lower year on year at ¥78.5 billion.

Our Vision for 2015

In February 2007 we announced our vision for 2015 and the 1st mid-term business management plan, which will cover the period from fiscal 2007 to fiscal 2009. By 2015, we aim to build DAIICHI SANKYO into a **Global Pharma Innovator** that conducts business in the world's major markets through its own operating bases, concentrates management resources into the pharmaceutical business and continuously creates and provides innovative pharmaceuticals.

Realizing the "Global Pharma Innovator"

Numerical Targets for FY2015	
Net sales	¥**1.5** trillion
Operating income margin	**25**% or more
Overseas sales ratio	**60**% or more

Top-Priority Therapeutic Areas of R&D

Establishing world-class R&D pipelines in four top-priority therapeutic areas: thrombosis, diabetes, cancer, autoimmune disease/rheumatoid arthritis

Our numerical targets for 2015 are net sales of ¥1.5 trillion, an operating income margin of 25% or more and an overseas sales ratio of 60% or more. We have selected thrombosis, diabetes, cancer and autoimmune disease/rheumatoid arthritis as our four R&D priority therapeutic areas. Capitalizing on DAIICHI SANKYO's strengths in these fields, we will build world-class pipelines.

Akio Ozaki
Senior Executive Officer
Human Resources /CSR

Ryuzo Takada
Senior Executive Officer
Sales & Marketing

The Role of the Mid-Term Business Management Plan

Our 1st mid-term business management plan will also be the first phase of our efforts to build the growth platform that we need to realize our vision for 2015. Our initial goal is to maximize synergies resulting from the merger. In the R&D area, we will continue to strengthen our drug development capabilities and expand our pipelines. Domestic market operations are the main source of earnings for DAIICHI SANKYO, and we will strengthen our presence in Japan by reorganizing our 2,300 medical representative (MR) force to create a "MR Crosswise" structure in which some MRs will specialize in specific fields and others in services for medical facilities. This new structure will boost our start in fiscal 2007.

In global markets, we will work to maintain and expand sales of our flagship products. These include the antihypertensive agent *Olmesartan*, our main mid-term growth driver (marketed as Olmetec® in Japan and Europe and Benicar® in the U.S.), and the broad-spectrum antibacterial agent *Levofloxacin* (marketed as Cravit® in Japan).

Over the next three years, we will also substantially expand our own marketing capabilities in the U.S. DAIICHI SANKYO, INC. (DSI) aims to facilitate the launch of new products and maximize product potential by increasing its MR force by a factor of 2.5, from 900 at present to 2,300 in fiscal 2009.

Our numerical targets based on these strategies are net sales of ¥960 billion, an operating income margin of 25%, and an overseas sales ratio of 40% or more in fiscal 2009.

Long-term Growth Beyond Fiscal 2010

The benefits of our forward-looking investment over the next few years will start to emerge in fiscal 2010 and beyond. By then, we aim to be achieving growth in excess of the growth rate of the global pharmaceutical market as we move toward the realization of the numerical targets set down in our vision for 2015.

The candidate in-house substances expected to drive this growth include the anti-platelet agent *Prasugrel* (CS-747), anti-coagulant agent DU-176b, and the antihypertensive agent CS-8663.

We are developing *Prasugrel* in collaboration with Eli Lilly and Company for the treatment of acute coronary syndrome and other serious ischemic disorders. The Phase 3 trials in the U.S. and Europe are completed, and we aim to file application for approval by the end of 2007. *Prasugrel* has considerable commercial potential as a drug that is more effective and has faster onset than competing products.

Hitoshi Matsuda
Senior Executive Officer
Corporate Performance Management

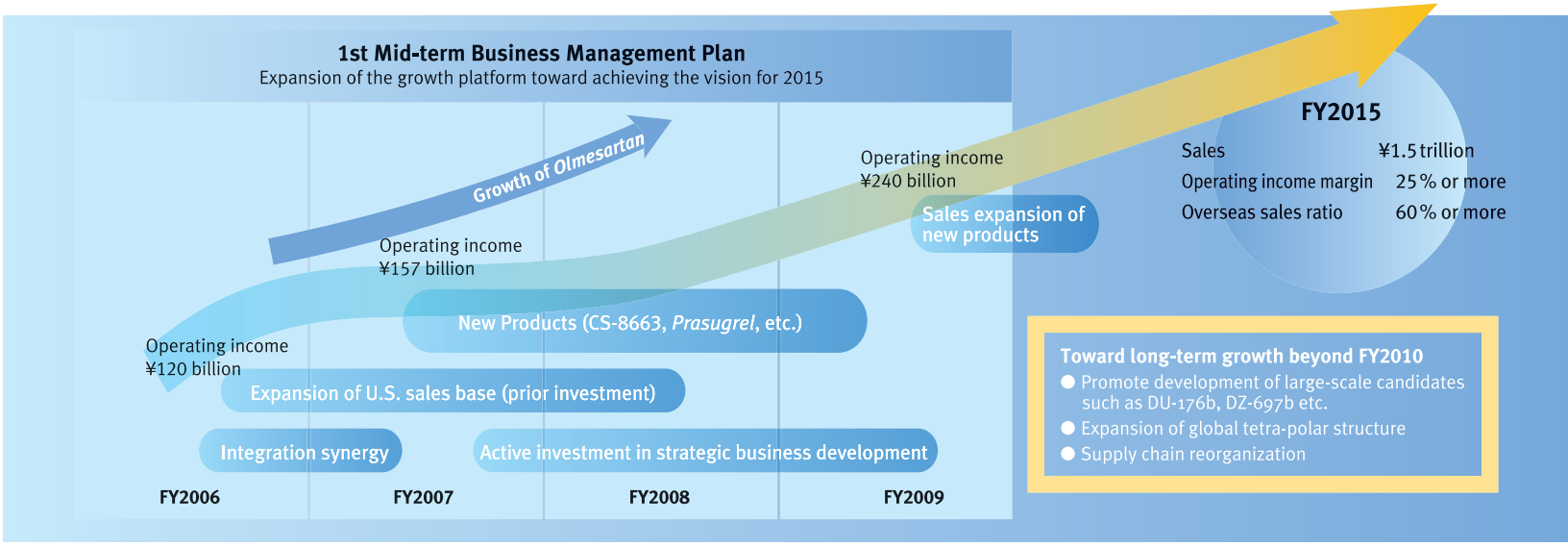
Tsutomu Une
Senior Executive Officer
Corporate Strategy

We are developing DU-176b as an inhibitor of factor Xa, which plays an important role in the coagulation mechanism. Developed for the prevention and treatment of thromboembolism, the drug is currently in Phase 2b trials, and we aim to move to Phase 3 in fiscal 2008. DU-176b has excellent oral absorbability and is expected to be both safe and effective. It has the potential to become a best-in-class drug.

CS-8663 is being developed mainly in the U.S. and Europe. It combines two antihypertensives with different mechanisms: the calcium channel blocker *Amlodipine*, and the angiotensin Ⅱ receptor blocker *Olmesartan*, which was developed by DAIICHI SANKYO. This combination drug is both safe and highly effective against hypertension and is expected to make an important contribution to patients who fail to achieve target blood pressure goals in monotherapy. An application for approval was filed in the U.S. in November 2006, and we plan to submit an application for approval in Europe in the fall of 2007.

In addition to the major markets of Japan, the U.S. and Europe, DAIICHI SANKYO also plans to expand its business infrastructure in a fourth market zone consisting of the Asian and Latin American markets, which are expected to expand dramatically in the future. We will also establish a more efficient global structure to enhance our domestic and international supply chain.

Process Toward the Achievement of Our Vision for 2015



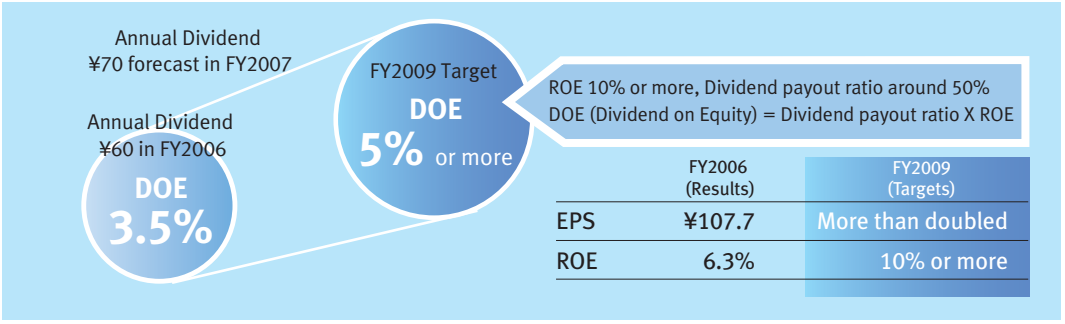
Delivering Returns to Shareholders

We are actively working to maximize shareholder returns, which we regard as a vital management priority. Our goal during the current mid-term business management plan is to achieve a 100% total return ratio by allocating net income for the term to shareholder returns in the form of dividends or share buybacks.

One of our targets is a dividend on equity ratio (DOE) of 5% or more in fiscal 2009, compared with 3.5% in fiscal 2006. We will also combine steady dividend growth with the flexible implementation of share buybacks based on resolutions of the Board of Directors.

Mid-term Policies

- Net income for the term will be appropriated to shareholder returns (dividends + share buyback)
  "Total Return Ratio" target: 100%
- Early achievement of DOE 5% and implementation of stable and continuous increase in dividends
- Share buyback will be conducted flexibly based on resolutions of the Board of Directors



	FY2006 (Results)	FY2009 (Targets)
EPS	¥107.7	More than doubled
ROE	6.3%	10% or more

CSR Initiatives

We believe that the improvement of corporate value must be based on a balanced approach that emphasizes social and humanistic values, as well as economic value. Our most important contribution to society is the supply of innovative pharmaceuticals that help people throughout the world to enjoy healthy, fulfilling lives. As a good corporate citizen, we also place great importance on business ethics and environmental protection. In addition, we believe that we should play a significant role in welfare activities and support for the arts and culture.

Regardless of short-term performance trends, we will exert sustained effort to achieve harmony with society through social contribution activities, which is one of the ways to realize our commitment "to contribute to the enrichment of quality of life around the world."

Takashi Shoda

Representative Director, President and CEO

Review of Key Divisions

Creating First-in-Class, Best-in-Class, High-Value-Added Products

DAIICHI SANKYO has demonstrated its R&D capabilities by creating numerous world-class products, including *Pravastatin*, *Levofloxacin* and *Olmesartan*. Those capabilities are based above all on the advanced specialist knowledge of our research personnel, and on their commitment to fight against disease. Our goal is to build on our accumulated expertise as a developer of innovative, high-quality pharmaceuticals, and to create high-added-value products with the potential to achieve first-in-class and best-in-class status.

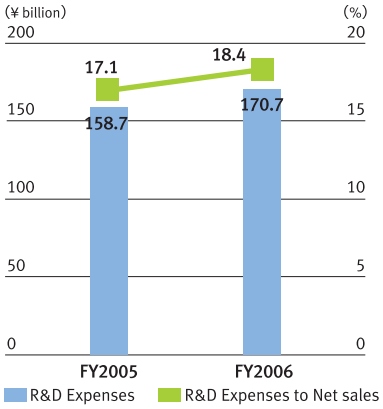
Kazunori Hirokawa, *Head of R&D Division*

Building World-class Pipelines in Four Therapeutic Areas: Thrombosis, Diabetes, Cancer and Autoimmune Disease/Rheumatoid Arthritis

Humanity's advances in medical technology and pharmaceuticals have saved countless lives and are helping people to enjoy healthy lives. However, there is room for further improvement in patient satisfaction within health care, and there are still many diseases for which treatment methods have not been found. We need to develop methods to treat and prevent these diseases, as well as create "personalized medicine" that take the characteristics of individual patients into account.

The fundamental mission of DAIICHI SANKYO is to meet these unmet needs. After comprehensively analyzing our situation, including our R&D capabilities and market potential, we have decided to focus our efforts on four therapeutic areas: thrombosis, diabetes, cancer and autoimmune disease/rheumatoid arthritis. Our goal as a **Global Pharma Innovator** is to build world-class pipelines in each of these four areas by 2015, through prioritized investment in R&D.

R&D Expenses and their Percentage of Net Sales

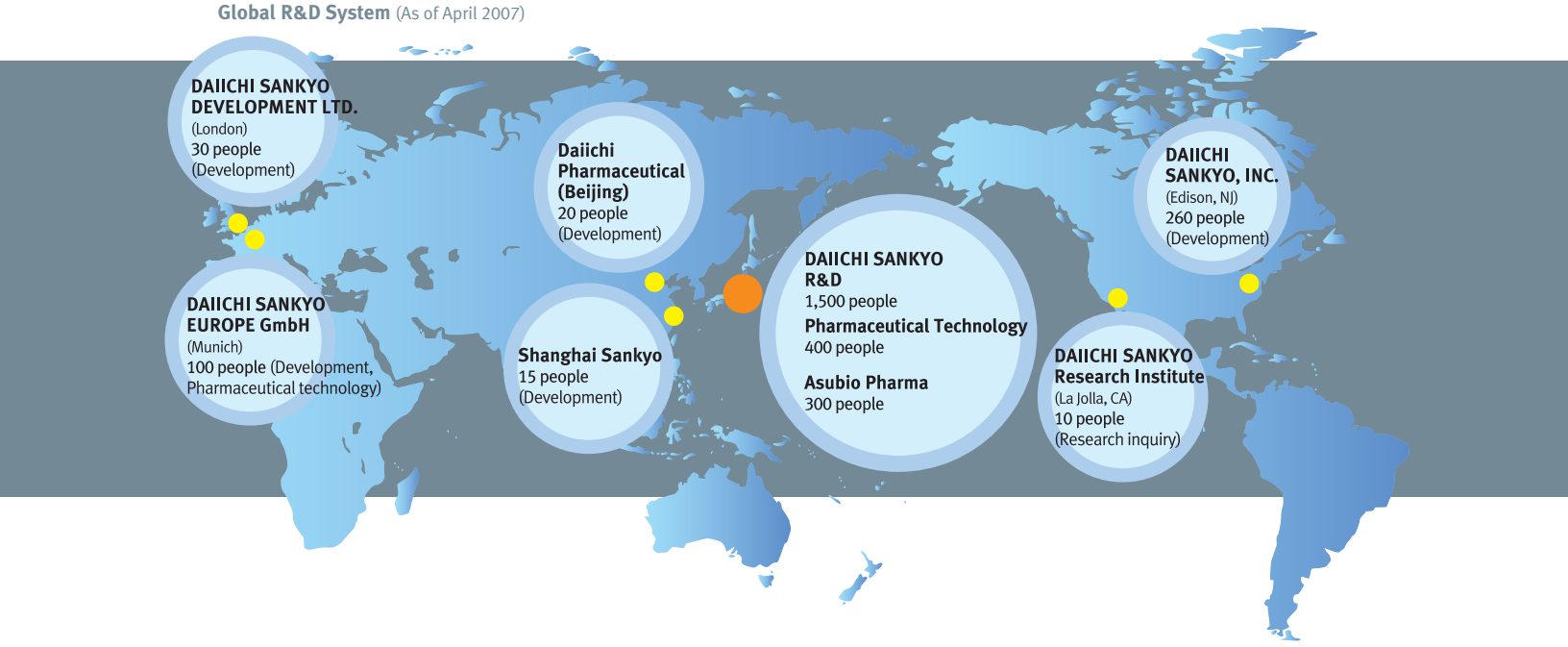


Primary Development Pipeline (As of July 2007)

	Phase 1	Phase 2	Phase 3	Application/Approval
Cardiovascular diseases	**DZ-697b**	**DU-176b** CS-866RN(#) CS-866CMB(#) SUN 4936h	**CS-747** HGF CS-866DM(#) CS-866AZ(#)	**CS-8663 (U.S.)**
Glucose metabolic disorders	SUN E7001(#) AJD101	CS-917	CS-011	WelChol DM
Infectious diseases	DX-619 CS-758 CS-8958 DC-159a	CS-023 Levofloxacin inj(#)	Levofloxacin high-dose(#) [SUN A0026]	DU-6859a DF-098(#) (approved)
Cancer	CS-7017 CS-1008 DE-766(#)			
Immunological allergic diseases	CS-0777	CS-712(#)		
Bone/Joint diseases		CS-706 SUN E3001(#)	AMG162(#) CS-600G(#)	LX-P(#)
Others	SUN N8075	SUN N4057 CS-088 SUN11031	SUN Y7017(#) DL-8234(#) KMD-3213 [SUN0588r]	CS-1401E(#)

- #: Only developed in Japan
- [ ]: Out-licensed
- Regarding the items developed globally, only the most advanced stages are described.
- The underlined items are the projects with highest priority.

Global R&D System (As of April 2007)



Building a Global R&D System

To support rapid progress through research and development, DAIICHI SANKYO is building an R&D system with three sites in Japan, the U.S. and Europe at the core. Although the R&D environments of the three regions differ in their characteristics, we always aspire to apply for approval in all three markets at the same time to deliver pharmaceuticals to patients worldwide as quickly as possible. We will improve our R&D productivity by strengthening our systems along functional as well as regional lines through global management.

In Japan, the R&D Division and the Pharmaceutical Technology Division, which are based primarily at three sites on the outskirts of Tokyo, collaborate closely in all stages from drug discovery through to development and manufacture. The most important overseas participants in the global development activities of DAIICHI SANKYO are DAIICHI SANKYO, INC. in the U.S. and DAIICHI SANKYO DEVELOPMENT LTD. in Europe. We are building close collaboration among companies in Japan, the U.S. and Europe under global decision-making and development systems.

One of the units that is helping to strengthen our exploratory research infrastructure is the DAIICHI SANKYO Research Institute. Based in the U.S., the Institute gathers and assesses information on new therapies and compounds. Specifically, it expands our opportunities to discover exploratory research "seeds." This includes assessing results obtained through venture funds in which DAIICHI SANKYO has invested to discover items with the potential to be introduced into our development pipelines.

Asubio Pharma Co., Ltd. has taken an original approach to drug discovery. It uses biotechnology concepts to find new drug discovery targets by identifying disease-related changes in biological functions.

Through a variety of methods based on this approach, we aim to create revolutionary new drugs through the identification of new drug discovery targets in areas including low-molecular compounds, peptides, proteins and antibodies.

Strengthening our Pipelines through Licensing and Alliances

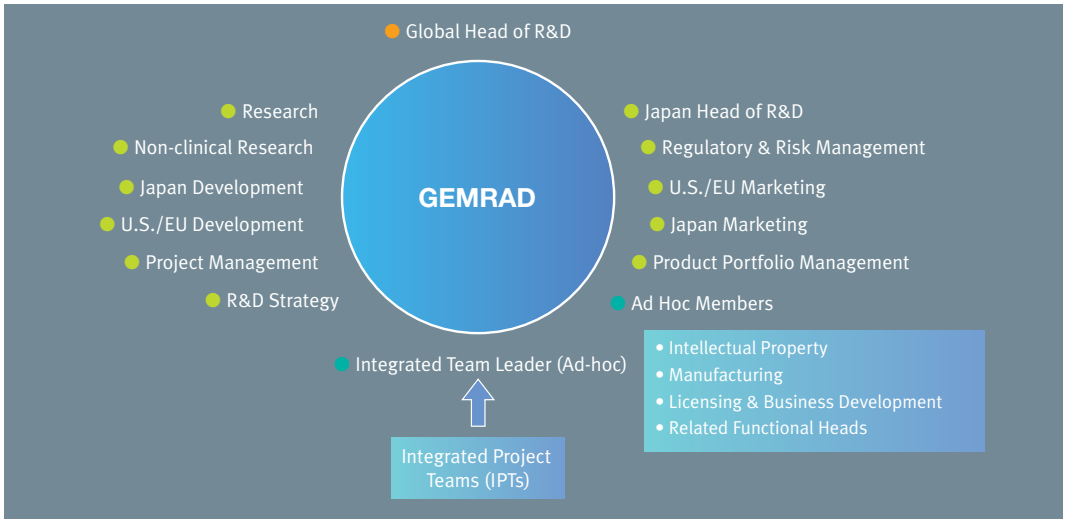
Our drug development pipelines are our foundation for mid- and long-term growth, and we will continue to strengthen them further. One of our strategies is to bring in outside resources through the expansion of our licensing activities, especially in our priority therapeutic areas. We are also actively acquiring technologies and other resources needed to strengthen our R&D infrastructure.

GEMRAD

In October 2005, we established the Global Executive Meeting of Research and Development (GEMRAD) as the supreme decision-making organization for the R&D activities of DAIICHI SANKYO. Its activities include monthly reviews of the progress of development projects.

GEMRAD includes global management of R&D activities across all organizations and regions, and makes major decisions about matters including pipeline priorities and the proper allocation of budgetary resources. Its mission is to accelerate our development activities and to ensure efficient resource allocation through effective management of R&D expenditure by quickly identifying development candidates and making prompt "go/no go" decisions at each decision point. GEMRAD members represent a wide spectrum of specialist areas and therefore include not only R&D personnel, but also people involved in domestic and overseas marketing, licensing and product portfolio management. This mix of skills and knowledge allows GEMRAD to make decisions based on comprehensive assessments covering all aspects from research to marketing.

GEMRAD Members



Priority Projects

After carefully assessing development pipeline priorities, GEMRAD selected four projects as its highest priorities. *Prasugrel* (CS-747) is an anti-platelet agent. The antihypertensive agent CS-8663 combines the calcium channel blocker *Amlodipine besylate*, a product released on the market by a competitor, and the angiotensin Ⅱ receptor blocker *Olmesartan*, which is manufactured by DAIICHI SANKYO. DU-176b is an inhibitor for blood coagulation factor Xa. DZ-697b is an anti-platelet agent. DAIICHI SANKYO plans to speed up drug development through the prioritized investment of resources in these four projects.

■ *Prasugrel* (CS-747)

Phase 1 clinical trials confirmed that *Prasugrel* is a powerful, rapid-acting platelet aggregation inhibitor. There are also indications that the number of "poor responders" will be extremely low with *Prasugrel* (Poor responders are those who fail to reach a specified level of platelet inhibition after receiving the drug). The U.S. and European Phase 3 trials have been completed at over 700 institutions located across about 30 countries, and the results are now undergoing data analysis. The study directly evaluates the safety and efficacy of *Prasugrel* compared with existing products in approximately 13,600 patients with acute coronary syndrome undergoing percutaneous coronary intervention*. If this study is successful, regulatory submission will follow by the end of 2007. The drug is being co-developed and commercialized with Eli Lilly and Company in the U.S. and Europe. In Japan, we are currently conducting our own Phase 2 clinical trials.

* With percutaneous coronary intervention (PCI), the patient is treated through catheters rather than by surgical means through the chest. PCI is used in cases that require urgent intervention and cannot be treated adequately with drugs, such as angina, unstable angina and myocardial infarction.

■ DU-176b

DU-176b is an anti-coagulant agent that inhibits blood coagulation factor Xa. There are indications, including high oral absorbability, that it may be possible to administer the drug in once-daily doses. DU-176b has been found to have a greater separation of anti-thrombotic effect and bleeding risk than existing anti-coagulants, such as Warfarin and Heparin. This characteristic is expected to facilitate dosage adjustment, making the drug easier to use. There is extremely intense competition among developers of factor Xa inhibitors, and we plan to accelerate development with the aim of achieving early approval for the product. The profile of this substance suggests that it has the potential to become a best-in-class drug. We are currently conducting Phase 2b clinical trials in Japan, the U.S. and Europe, focusing on deep venous thrombosis and non-valvular atrial fibrillation.

John C. Alexander
Chairman of GEMRAD

CS-8663

The antihypertensive agent CS-8663, to be marketed as AZOR™ in the U.S., combines the calcium channel blocker (CCB) *Amlodipine besylate*, which is a competitor's product, with DAIICHI SANKYO's angiotensin Ⅱ receptor blocker (ARB) *Olmesartan*. In the U.S. and Europe, 40–50% of hypertensive cases are treated with drugs, and it is estimated that only around one-half of these patients achieve their target blood pressure. CS-8663 has the potential to satisfy unmet medical needs by helping more patients to reach their target blood pressure. An application for approval was filed in the U.S. in November 2006, and Phase 3 clinical trials are currently under way in Europe. In Japan, we are implementing Phase 2 trials using a combination of *Olmesartan* and our own CCB, *Azelnidipine* (marketed as Calblock®).

DZ-697b

DZ-697b is a new type of platelet aggregation inhibitor. Unlike existing anti-platelet agents, DZ-697b inhibits platelet aggregation induced by shear stress associated with friction caused by the flow of blood. While it inhibits platelet aggregation induced by high shear stress, it has also been found that slight inhibition on aggregation is shown at low shear stress, suggesting a lower risk of bleeding. In the initial stages of clinical trials, the drug was found to have rapid onset and prolonged inhibition. The trials also confirmed that high dosages did not increase the duration of bleeding. We are currently conducting our own Phase 1 clinical trials in Japan, the U.S. and Europe with the aim of gaining approval of DZ-697b for use in the treatment of stroke, acute coronary syndrome and microcirculation disorders.

DAIICHI SANKYO Development Pipeline

Development Code Number	Generic Name	Dosage Form/Route	Indication/Class
Cardiovascular diseases			
CS-747	Prasugrel	Oral	Acute coronary syndrome / Anti-platelet agent
—	Hepatocyte growth factor DNA plasmid	Injection	Peripheral arterial diseases (PAD), Coronary arterial diseases (CAD)/ Vascular regeneration therapy by HGF-DNA
DU-176b	—	Oral	Atrial fibrillation, Venous thromboembolism / Oral factor Xa inhibitor
CS-8663☆	Olmesartan medoxomil, Amlodipine besilate	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Calcium blocker
CS-866DM☆	Olmesartan medoxomil	Oral	Diabetic nephropathy / Angiotensin Ⅱ receptor antagonist
CS-866RN☆	Olmesartan medoxomil	Oral	Chronic glomerulonephritis / Angiotensin Ⅱ receptor antagonist
CS-866AZ☆	Olmesartan medoxomil, Azelnidipine	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Calcium blocker
CS-866CMB☆	Olmesartan medoxomil, Hydrochlorothiazide	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Diuretic
SUN 4936h	Carperitide (Recombinant)	Injection	Acute heart failure / α-human atrial natriuretic peptide
DZ-697b	—	—	Anti-platelet agent
Glucose metabolic disorders			
CS-011	Rivoglitazone	Oral	Diabetes / Glitazone agent that improves insulin resistance
CS-917	—	Oral	Diabetes / Gluconeogenesis inhibitor
WelChol DM☆	Colesevelam hydrochloride	Oral	Diabetes
SUN E7001	(Trivial name) Glucagon like Peptide-1	—	Diabetes
AJD101	—	—	Diabetes
Infectious diseases			
DF-098	*Haemophilus influenzae* type b conjugate vaccine	Injection	Prevention of *Haemophilus influenzae* type b invasive infections
DU-6859a	Sitafloxacin hydrate	Injection Oral	Antibiotic (New quinolone)
CS-023	—	Injection	Antibiotic (Carbapenem type)
Levofloxacin High-dose☆	Levofloxacin	Oral	Antibiotic (New quinolone)
Levofloxacin Injection☆	Levofloxacin	Injection	Antibiotic (New quinolone)
SUN A0026	Faropenem medoxomil	Oral	Antibiotic (Penem type)
DX-619	—	—	Antibiotic (New quinolone)
CS-758	—	—	Azole antifungal
CS-8958	—	Inhalation	Anti-influenza
DC-159a	—	—	Antibiotic (New quinolone)
Cancer			
CS-7017	—	—	PPARγ activator
CS-1008	—	—	Anti-DR5 antibody
DE-766	Nimotuzumab	—	Anti-EGFr antibody
Immunological allergic diseases			
CS-712	—	Oral	Cedar pollen pollinosis / Oral immune desensitization
CS-0777	—	—	Immunomodulator
Bone/Joint diseases			
AMG162	Denosumab	Injection	Bone metastases of cancer / Anti-RANKL antibody Osteoporosis / Anti-RANKL antibody
CS-706	—	Oral	Anti-inflammatory and analgesic
LX-P	Loxoprofen sodium	Tape	Anti-inflammatory and analgesic
CS-600G☆	Loxoprofen sodium	Gel	Anti-inflammatory and analgesic
SUN E3001	(Trivial name) Human parathyroid hormone [hPTH]	Nasal Spray (Liquid type)	Osteoporosis
Others			
SUN Y7017	Memantine hydrochloride	Oral	Dementia of Alzheimer type / NMDA receptor antagonist
SUN N4057	—	Injection	Acute ischemic stroke / Serotonin (5-HT) 1A receptor agonist
KMD-3213	Silodosin	Oral	Treatment of dysuria associated with benign prostatic hyperplasia / Selective alpha 1A blocker
SUN11031	(Trivial Name) Human ghrelin	Injection	Cachexia Anorexia nervosa
CS-088	Olmesartan	Eyedrops	Glaucoma / Angiotensin Ⅱ receptor antagonist
DL-8234☆	Interferon-β	Injection	Hepatitis C (with Ribavirin)
CS-1401E☆	Fentanyl citrate	Injection	Pain relief during anesthesia
SUN0588r	Sapropterin hydrochloride	Oral	Hyperphenylalaninemia
SUN N8075	—	—	Acute ischemic stroke

☆ additional indications, new formulations etc.

(As of July 2007)

Origin	Developer (In-house/Co-development)	Region	Stage			
			Phase1	Phase2	Phase3	Application
Daiichi Sankyo, Ube Industries	Co-development (Eli Lilly)	U.S./EU				
	In-house	Japan				
AnGes MG (Sales agreement)	AnGes MG	U.S./EU			PAD	
				CAD		
		Japan				Preparation for application
Daiichi Sankyo	In-house	U.S./EU				
	In-house	Japan				
Daiichi Sankyo	In-house	U.S.				Application on Nov. 2006
	In-house	EU				
Daiichi Sankyo	In-house	Japan				
Daiichi Sankyo	In-house	Japan				
Daiichi Sankyo	In-house	Japan				
Daiichi Sankyo	In-house	Japan				
Asubio Pharma	In-house	U.S./EU			Out-licensing	
Daiichi Sankyo	In-house	U.S./EU/JP				
Daiichi Sankyo	In-house	U.S./EU				
	In-house	Japan				
Daiichi Sankyo, Metabasis	In-house	U.S./EU				
Genzyme	In-house	US				Application on Dec. 2006
Asubio Pharma	In-house	Japan				
Ajinomoto	In-house	U.S./EU				
Sanofi Pasteur (Sales agreement with joint venture)	Sanofi Pasteur - Daiichi Vaccines	Japan				Approval on Jan. 2007
Daiichi Sankyo	In-house	U.S.				
	In-house	Japan				Application on Sep. 2006
Daiichi Sankyo	In-house	U.S./EU/JP				
Daiichi Sankyo	In-house	Japan				
Daiichi Sankyo	In-house	Japan				
Asubio Pharma	Replidyne	North America				
Daiichi Sankyo	In-house	U.S./EU/JP				
Daiichi Sankyo	In-house	U.S./EU				
Daiichi Sankyo	Biota	U.S./EU				
	In-house	Japan				
Daiichi Sankyo	In-house	U.S./EU				
Daiichi Sankyo	In-house	U.S./EU				
Daiichi Sankyo	In-house	U.S./EU				
CIMYM BioSciences	In-house	Japan				
Daiichi Sankyo	In-house	Japan				
Daiichi Sankyo	In-house	U.S./EU				
Amgen	In-house	Japan				
Amgen	In-house	Japan				
Daiichi Sankyo	In-house	U.S./EU				
Daiichi Sankyo	Co-development (Lead Chemical)	Japan				Application on Feb. 2007
Daiichi Sankyo	In-house	Japan				
Asubio Pharma	In-house	Japan			Out-licensing	
Merz	Daiichi Asubio	Japan				Mild to moderate
					Moderately	severe to severe
Asubio Pharma	In-house	U.S./EU				
Kissei	In-house	China				
Asubio Pharma	In-house	U.S./EU				
Asubio Pharma	In-house	Japan				
Daiichi Sankyo	Co-development (Santen)	U.S./EU				
		Japan				
Toray	Co-development (Toray)	Japan				
Janssen	(Doctor Initiated Investigation)	Japan				Application on Sep. 2006
Asubio Pharma	BioMarin	U.S.				
Asubio Pharma	In-house	U.S./EU				

Timely Responses to the World's Medical Needs

Candidate compounds discovered through exploratory research are developed into pharmaceutical products through extensive non-clinical testing and clinical trials. The Pharmaceutical Technology Division contributes to the early development of new products through the timely provision of substances for testing at the R&D stage. We also help to meet the world's medical needs by developing formulations that reflect needs and conditions in medical institutions. Another focus is the development of advanced pharmaceutical technology to turn "seeds" discovered through our research activities into "fruit" in the form of pharmaceutical products. Through these activities, we help patients to enjoy happier, healthier and more fulfilling lives.

Takeshi Ogita, *Head of Pharmaceutical Technology Division*

A Bridge Linking R&D with Manufacturing and Marketing

Pharmaceutical research and development involves extensive non-clinical testing, as well as clinical trials conducted on a global scale. Within DAIICHI SANKYO, the production and supply of the substances to be studied in these trials is the task of the Pharmaceutical Technology Division. This organization manufactures investigational substances, including DU-6859a, for which an application for approval was filed in Japan in fiscal 2006, and other major products developed by DAIICHI SANKYO, such as DU-176b, DZ-697b and CS-011. These substances are produced under GMP-compliant conditions at the Hiratsuka, Shizuoka and Kasai facilities for supply to clinical trial facilities. Biotechnology bulk pharmaceuticals, such as CS-1008, are manufactured at and supplied from facilities in Tatebayashi (Asubio Pharma) and Onahama.

Another aspect of our mission is to respond to the needs of medical professionals by developing dosage forms designed to improve compliance with drug administration procedures, and products that help to prevent medical errors. Investigational substances for CS-8663, which combines *Amlodipine* and *Olmesartan*, was supplied to clinical trial facilities by DAIICHI SANKYO EUROPE GmbH (DSE).

In Japan, we became the first company in the industry to supply a contrast medium, Omnipaque®, in syringes with IC tags. Introduced in 2006, these products will make an important contribution to the prevention of medical errors. Also in Japan, we are developing *Levofloxacin* high-dose to combat drug-resistant strains and improve therapeutic effectiveness.

Earth-Friendly Product Development

There is growing pressure for a rapid shift away from the mass-production, mass-consumption, mass-waste world of the 20th century toward an environmentally harmonious, resource-recycling society.

Compared with other chemical industries, the pharmaceutical industry has a high E-factor, which means that it produces large quantities of waste per unit of target substance produced. DAIICHI SANKYO is constantly assessing the environmental impact of its activities at all stages from development onwards. Our aim is to minimize our environmental footprint by developing manufacturing technologies that are kind to the environment. Under our Green Chemistry and Engineering policy, we develop production processes designed to reduce consumption of the Earth's resources and energy, minimize waste and ensure safety. Our commitment to the development of Earth-friendly, people-friendly products also includes active involvement in environmental protection research.

Reliable and Quick Delivery of High-quality Pharmaceuticals to the World

The supply chain is the core system for fulfilling our mission: To contribute to the enrichment of quality of life around the world through the creation and provision of innovative pharmaceuticals. With our globally integrated supply chain, DAIICHI SANKYO helps people to live healthy, fulfilling lives by ensuring that high-quality pharmaceuticals are reliably and quickly supplied to those who need them around the world.

Toru Kuroda, *Head of Supply Chain Division*

A Global Supply Chain Optimized for the Enrichment of Quality of Life

DAIICHI SANKYO helps people worldwide to enjoy healthy, fulfilling lives by reliably supplying high-quality pharmaceuticals to those who need them, when they need them and in the quantities needed.

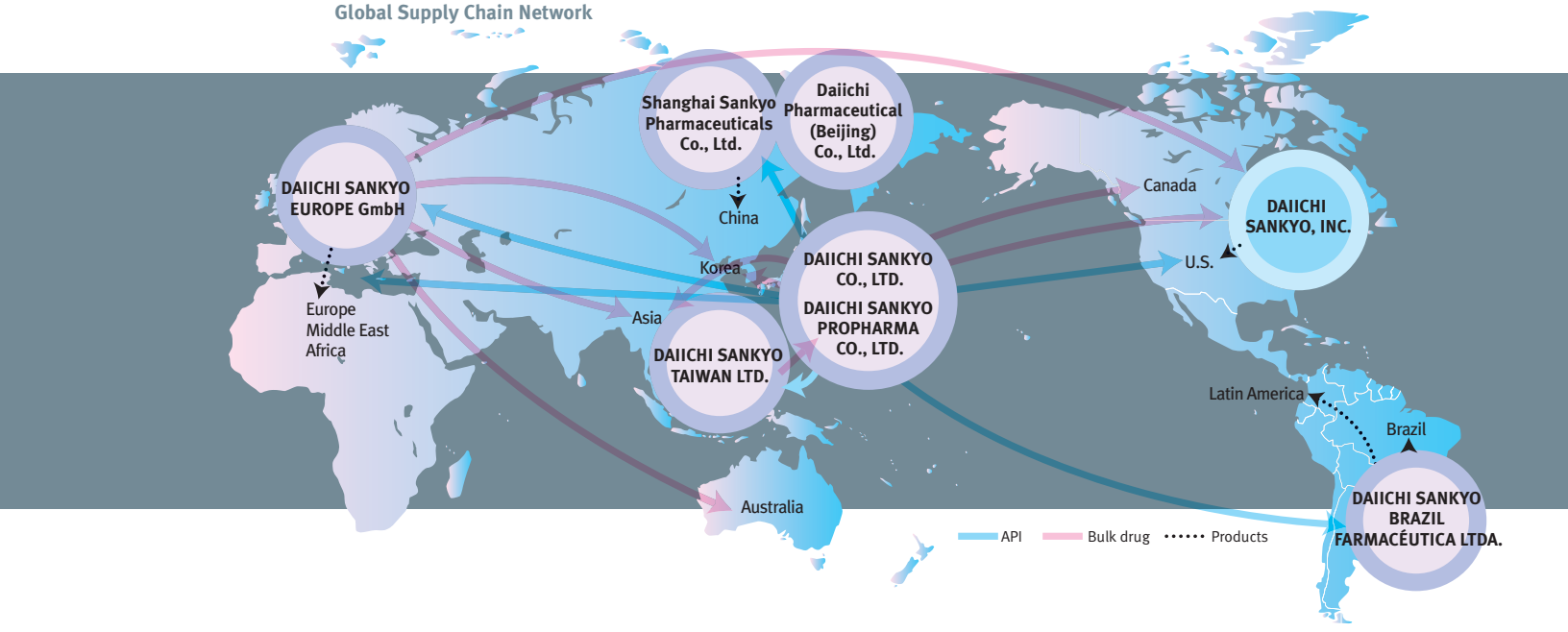
DAIICHI SANKYO has integrated procurement, manufacturing and logistics functions under a single division, and brought together all related information. The result is a very flexible and efficient production and supply structure, capable of stable access to raw materials, systematic manufacturing of high-quality pharmaceuticals as well as timely, reliable delivery.

Our supply chain is capable of global supply, especially of products already on the market, such as the antihypertensive agent *Olmesartan* (marketed as Olmetec® in Japan and Europe, Benicar® in the U.S.), and the broad-spectrum antibacterial agent *Levofloxacin* (marketed as Cravit® in Japan, Levaquin® in the U.S. and Tavanic® in Europe). We plan to further optimize our global supply chain by 2015.

DAIICHI SANKYO's manufacturing operations in Japan, where we have nine factories, are handled primarily by DAIICHI SANKYO PROPHARMA CO., LTD. There are five major plants overseas—one each in Europe, Taiwan and Brazil and two in China. Together, these facilities form a global supply chain network. All have established quality assurance systems based on and compliant with the Good Manufacturing Practice (GMP), which defines manufacturing and quality management requirements for pharmaceuticals.

We have built an advanced production management structure, backed by proven systems and expertise, that allows us to supply highly dependable products reliably and with strong consideration for the environment.

Global Supply Chain Network



Ensuring Quality through Stringent Control and High Ethical Standards

Pharmaceuticals help people throughout the world to enjoy healthy and fulfilling lives. However, the risk of side effects can never be totally eliminated, even with the most advanced drugs. That is why DAIICHI SANKYO maintains extensive quality assurance and safety management systems for its pharmaceutical products. These systems span all stages from R&D to post-marketing. Because of their direct importance to human life and health, we apply our own stringent controls and high ethical standards to all activities related to pharmaceuticals.

Akira Nagano, *Head of Quality and Safety Management Division*

Compliance with Regulations and Strict Voluntary Standards

A pharmaceutical company must apply high ethical standards and scientific validity at all stages from R&D to post-marketing. There are various standards governing these activities. For example, at the R&D stage, we comply with the Good Laboratory Practice (GLP) and the Good Clinical Practice (GCP). At the production stage, we apply the Good Manufacturing Practice (GMP), which ensures appropriate manufacturing management and quality management at all stages, from raw material procurement to production and shipment of finished pharmaceuticals.

We conduct regular audits and inspections of the manufacturing facilities of our group companies and suppliers in Japan and overseas. This process aims to ensure a high standard of compliance with the spirit of the GMP standards both domestically and overseas. When supplying information about pharmaceuticals to medical professionals, we comply both with industry standards and also with our own Code of Conduct.

After we have marketed the pharmaceuticals, we must continue to gather, analyze and assess information about quality, effectiveness, safety and proper use, so that we can provide timely information to medical professionals. The standards applied at this stage include the Good Quality Practice (GQP), which covers quality management for pharmaceuticals; the Good Vigilance Practice (GVP) governing safety management; and the Good Post-Marketing Study Practice (GPSP) for post-marketing studies and trials. DAIICHI SANKYO maintains and applies systems that secure prompt, effective action to ensure the quality and safety of pharmaceutical products.

DAIICHI SANKYO uses a variety of rules and stringent voluntary standards to ensure the reliability of its pharmaceuticals. The task of the Quality and Safety Management Division is to coordinate quality assurance and safety management activities to ensure patient confidence in our products. We also gather, evaluate and study overseas information about side-effects, and conduct timely, accurate analyses of safety management information from Japan and other countries. By reliably distributing findings from this work to medical fields, we promote the proper use of pharmaceuticals. This is an important aspect of our safety assurance activities as a global pharmaceutical company.

A Good Partner for Both Patients and Medical Professionals

DAIICHI SANKYO was formed through the integration of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd., both of which had built excellent reputations in the medical community as providers of information on a wide range of therapeutic areas. Building on the combined expertise of these two companies, we have established a strong presence in the domestic market, our primary field of activity.

The goal of our business activities has always been to help medical professionals restore health and happiness to the lives of their patients by providing essential information promptly and accurately. As DAIICHI SANKYO, we have renewed our commitment to this important responsibility, and we are determined to fulfill our vital role as a good partner for both medical professionals and patients.

Yoshihiko Suzuki, *Head of Domestic Sales & Marketing Division*

Adapting to a Changing Market Environment

In April 2006, an average price reduction of 6.7% was made on prescription drugs under Japan's National Health Insurance scheme. Other challenges in our business environment include the trend toward a diagnosis-procedure combination reimbursement system, government policies encouraging the use of generic drugs, and new legislation reforming pharmaceutical-related regulations.

Even before the completion of their corporate integration in April 2007, Sankyo and Daiichi were jointly providing information about their respective flagship products, the antihypertensive agent Olmetec® and the broad-spectrum antibacterial agent Cravit®. To enhance their information services, the two companies also jointly worked on the development of a new sales organization based on their combined medical representative (MR) force, one of the biggest in the industry. These efforts culminated in the new "MR Crosswise" structure, which has been designed to ensure optimal MR performance in terms of both quality and quantity. We started our activities from April 2007, with the new structure supported by MR training and support systems.

The MR Crosswise Structure

This new structure integrates MR teams specializing in services for medical facilities with those specializing in particular therapeutic areas. The word "cross" signifies the organic integration of our 2,300-strong MR force, while the word "wise" symbolizes the wide array of high-quality scientific information efficiently provided by this new organization. The facility teams accurately ascertain the needs of medical facilities, and teams specialized in each therapeutic area quickly provide information based on their expertise. We believe that this structure will meet the changing needs of medical professionals both quantitatively and qualitatively. At present there are five areas, centering on cardiovascular diseases.

Targets for Fiscal 2009

Our strategy for the domestic pharmaceutical business is to concentrate our resources into key products, including Olmetec®. With the 2,300-strong MR Crosswise structure playing an effective role, we expect net sales to increase year on year in fiscal 2007. Our sales target for fiscal 2009 is ¥470 billion. We aim to achieve this by raising the value of our products through post-market clinical trials and other initiatives that scientifically demonstrate the products' benefits.

Sales of Key Products (¥ billion)

Product name	Indication/Effect	FY2004	FY2005	FY2006
Olmetec®	Antihypertensive agent	9.0	25.6	42.2
Cravit®	Broad-spectrum antibacterial agent	47.1	50.2	46.7
Mevalotin®	Antihyperlipidemic agent	82.5	75.2	67.8
Calblock®	Antihypertensive agent	3.0	6.4	8.8
Artist®	Antihypertensive agent	15.6	18.2	19.3
Kremezin®	Treatment for chronic renal failure	13.6	13.0	12.2
Loxonin®	Non-steroidal analgesic and anti-inflammatory agent	28.6	29.0	30.9
Omnipaque®	Non-ionicity contrast agent	34.2	34.7	31.5

Strengthening Our Market Presence after a Successful Integration

This past Spring marked an important milestone for our organization—the one-year anniversary of the integration of Daiichi and Sankyo in the U.S., a year before the full integration of our parent company in Tokyo. The U.S. integration proved to be successful and very rewarding, and it has made our U.S. organization even stronger and poised for sustained long-term growth. In 2006, we had a record year of profitability, exceeding our operating plan projections, and we are now on track to achieve sales of $1 billion in 2007. This solid sales growth securely positions our U.S. organization to build for a future characterized by enormous potential.

Our strength is derived from shared values of innovation, integrity, respect, accountability and collaboration, and from our unique culture of mutual trust and operational excellence. Our goal of becoming one of the most successful operating units of DAIICHI SANKYO worldwide is within reach, and as this pivotal year comes to an end, each of us in the U.S. organization has renewed our commitment to attain that goal.

Joseph P. Pieroni, *President and CEO, DAIICHI SANKYO, INC.*

The U.S. Business Environment for Pharmaceuticals

The U.S. market remains the world's largest and fastest-growing market for pharmaceuticals. But there are also clear signs of deceleration in the pharmaceutical market as a whole. As patents expire on many major blockbuster products, there is a growing trend toward encouraging the use of generics drugs. In addition, Medicare Part D, the U.S. prescription drug benefit program which was enacted in January 2006, extends the range of people eligible for prescription drugs. It also expands the scope of government regulation, and there has been speculation that it lays the groundwork for reduced prices on pharmaceutical products. Despite these trends, DAIICHI SANKYO can be successful in this challenging marketing environment with its range of value-added products with extended patent life.

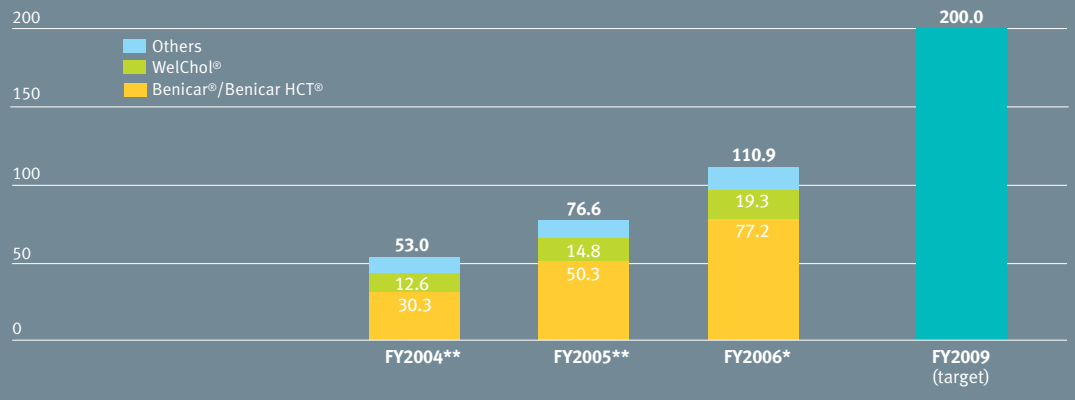
The continued improvement of our performance in this critical U.S. market for pharmaceuticals is a key component of our overall growth strategy for DAIICHI SANKYO.

Preemptive Merger Resulted in Expanded Presence

In April 2006, the U.S. subsidiaries of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. integrated in advance of their parent companies in Japan to form DAIICHI SANKYO, INC. (DSI). The U.S. organization is headquartered in New Jersey, where its commercial operations and clinical development divisions are located. Research alliance opportunities are evaluated at the company's research institute based in California. The U.S. organization represents a key growth driver for DAIICHI SANKYO and will play a pivotal role in the company's overall growth strategy.

In addition to our global strategic product *Olmesartan*, the antihypertensive agent sold as Benicar® in the U.S., DSI is also marketing: Benicar HCT®, a combination product consisting of Benicar® and a diuretic; the antihyperlipidemic drug WelChol® (*colesevelam HCl*); the antibiotic eardrop medication Floxin Otic®; and the secretory agonist Evoxac®, which is used to treat dry mouth syndrome. The company also co-promotes the anticancer agent Camptosar® with Pfizer. In fiscal 2006, DSI reached a new milestone with sales in excess of ¥100 billion. It achieved double-digit sales growth in all products as a result of the strength of the merger.

DSI Sales Trends (¥ billion)



The above amounts only denote sales of DSI's sales division.
* DSI's results for FY2006 are based on sales for 15 months (¥130.4 billion) because of a change in the accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month period result.
** The amounts for FY2004 and FY2005 are simple total of the figures of U.S. subsidiaries of Sankyo and Daiichi.

Benicar® has been especially successful since its launch in the U.S. in May 2002. DSI has worked in collaboration with Forest Laboratories, Inc. to market the advantages of Benicar®, and sales of both Benicar® and Benicar HCT® have expanded rapidly. Despite its market position at the time of launch as the seventh angiotensin II receptor blocker (ARB) to enter the market, Benicar has risen to third place in terms of prescription share and is on track to move into second place in the ARB class.

Preparing for a New Growth Phase

As the mainstay of the overseas business operations of DAIICHI SANKYO, DSI plans to achieve robust, sustained growth in sales of existing products, and also launch new products that have the potential to become major contributors to the company's overall sales performance, with sales targets of at least ¥200 billion set for fiscal 2009. With the expansion of its business infrastructure in the U.S. as a key priority, DSI is also preparing for further growth in fiscal 2010 and beyond through investments and alliance partnerships.

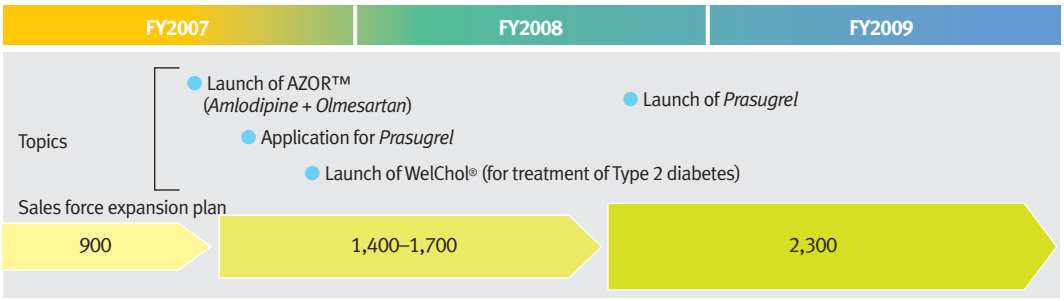
Before the end of fiscal 2007, DSI expects to launch AZOR™*, which combines *Olmesartan* with the calcium channel blocker *Amlodipine*, the leading antihypertensive agent in the world. The company is also seeking to obtain additional approval for the antihyperlipidemic agent WelChol®, as a drug for the treatment of Type 2 diabetes. Both these products are currently under regulatory review. If approved, WelChol® will be the first LDL cholesterol-lowering medication that is also indicated for improving glycemic control.

In fiscal 2008, DSI also anticipates launching the anti-platelet agent *Prasugrel*** (CS-747). Phase 3 trials designed to verify the extent to which this drug can reduce the incidence of myocardial infarctions and cardiovascular events have been completed. These trials are based on direct comparisons with *Clopidogrel* (Plavix®), currently the world's leading drug in this category and the second largest product in the world. If this study is successful, regulatory submission will follow by the end of 2007. *Prasugrel* has the potential to be an important product in the anti-platelet market and a key contributor to growth in the worldwide sales of DAIICHI SANKYO.

DSI recognizes the importance of medical representatives to the expansion of its business infrastructure in the U.S., to maintaining and expanding sales of existing products, and to maximizing the full potential of anticipated new products. It plans to increase its sales force to 1,700 at the end of fiscal 2007, and to 2,300 by fiscal 2009. This phased expansion will dramatically enhance DSI's ability to grow its business operations in the U.S., especially in the field of cardiovascular disease. At the same time, the U.S organization will continue to build on its successful foundation of a lean and agile business structure, the strategic use of technology, and strong collaboration with alliance partners.

* The AZOR trade name is currently under regulatory review.
** *Prasugrel* is being co-developed and will be co-commercialized with Eli Lilly and Company.

Expansion of Business Infrastructure in the U.S.



Mary Jane Helenek
President & CEO
Luitpold Pharmaceuticals, Inc.

Luitpold Pharmaceuticals, Inc.

Luitpold Pharmaceuticals, Inc. (LPI) consists of four divisions: American Regent, Inc., Luitpold Animal Health, the Osteohealth® Company and Contract Manufacturing. It supplies excellent pharmaceutical products and high-quality information to customers in the U.S. and Canada.

American Regent, which accounts for around 80% of total sales, supplies over 60 different types of injectable products, including its flagship product Venofer®, which is used to treat anemia. Sales of Venofer® have expanded rapidly since its launch in November 2000, and it is now the most prescribed product for the treatment of iron deficiency anemia in hemodialysis patients.

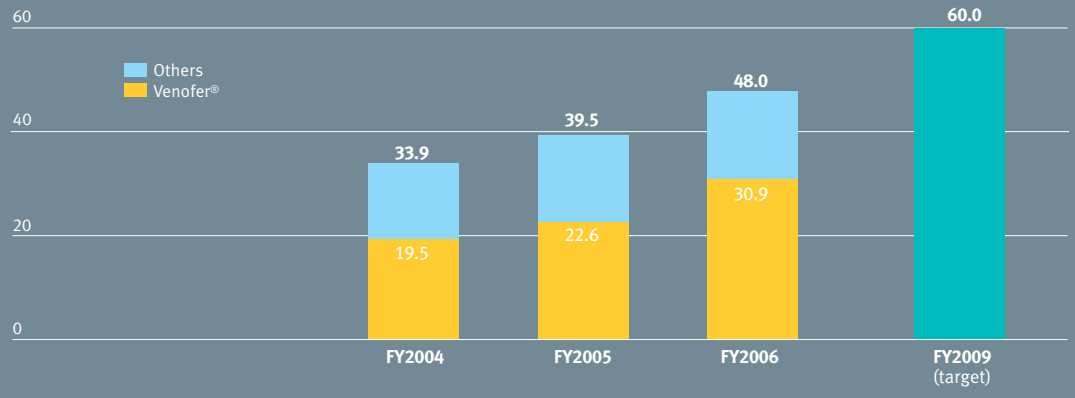
LPI plans to launch Injectafer®, which is expected to be the company's main growth driver, before the end of fiscal 2007. Its preparations for this launch include the expansion of its marketing organization to support expansion into the field of obstetrics and gynecology.

Venofer® treatment for iron deficiency anemia

The Osteohealth® Company handles dental products and other items. It is working to expand sales of its flagship products, including GEM 21S®, which was launched in fiscal 2005 for use in the treatment of periodontal disease.

LPI's sales target for fiscal 2009 is ¥60 billion or more. It is building a solid presence as the second DAIICHI SANKYO Group subsidiary in the U.S.

LPI Sales Trends (¥ billion)



* LPI's results for fiscal 2006 are based on sales for 15 months (¥61.0 billion) because of a change in the accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month period result.

Supporting the Global Development of DAIICHI SANKYO through Wide-ranging Activities in the European Market

Our mission in Europe is a reflection of our Japanese origin: We are driven by our corporate culture of innovativeness, cooperation and integrity in our goals to contribute to the enrichment of quality of life by delivering first-in-class and best-in-class drugs.

With the launch of the antihypertensive drug Olmetec®, we have focused all our activities on delivering scientific services to the medical professionals in the cardiovascular area of Europe. We are positioned to out-grow our peers by the effectiveness of our Olmetec-product and new launches of CS-8663 and *Prasugrel*. Additionally, we are set to drive regional expansion, increase our market presence and search opportunities of licensing and alliances. The combination of these initiatives is powering us to achieve our mid-term business plan, and everyone of DAIICHI SANKYO in Europe is deeply committed to this end. As a relatively new, enthusiastic and dedicated team of about 1,800 colleagues, we are eager to contribute significantly to DAIICHI SANKYO's global profile.

Reinhard Bauer, *Managing Director and CEO, DAIICHI SANKYO EUROPE GmbH*

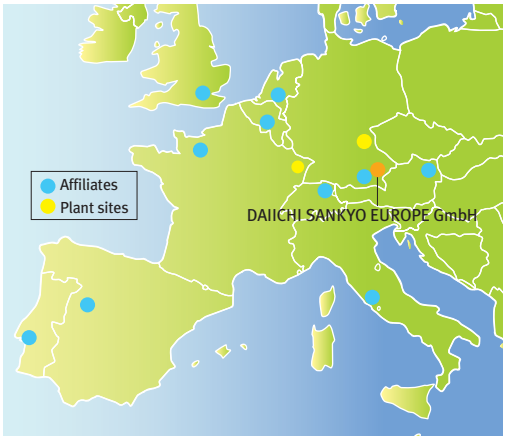
Max J. Schöner
Managing Director and CFO
DAIICHI SANKYO EUROPE GmbH

Our Business Activities in Europe

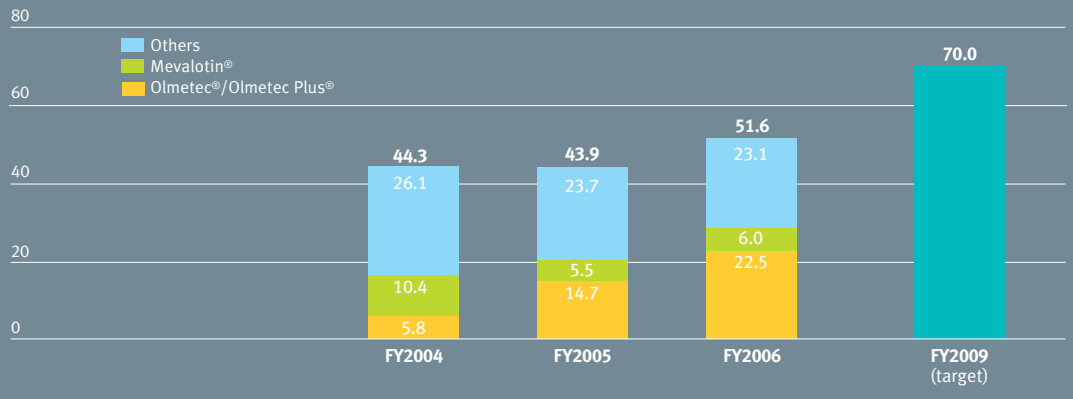
Based in Germany, DAIICHI SANKYO EUROPE GmbH (DSE) develops, manufactures and markets pharmaceutical products in Europe, the second biggest market in the world. It has sales offices in 10 countries: Germany, Austria, Belgium, Spain, Italy, the Netherlands, Portugal, Switzerland, the U.K. and France. Its flagship products are marketed by a sales force of approximately 850 medical representatives (MR).

Conditions in the European pharmaceutical market have become very challenging. Governments are intensifying their efforts to curb health expenditure through measures including reductions in drug prices, stricter control of pharmaceutical products' eligibility for insurance payments, and measures to encourage the use of generic products. Products marketed by the DSE Group include our global strategic product, the antihypertensive agent *Olmesartan* (marketed as Olmetec® and Olmetec Plus® in Europe), and the antihyperlipidemic agent *Pravastatin* (marketed as Mevalotin®). The Group also markets the antihypertensive agents Lomir® and Lopressor® (licensed-in from Novartis AG), which employ a different mechanism from *Olmesartan* and the osteoporosis drug Evista® (licensed-in from Eli Lilly and Company). The Group's sales reached ¥50 billion in fiscal 2006.

Network in Europe



DSE Group Sales Trends (¥ billion)



Initially launched in Germany in 2002, Olmetec® has been progressively introduced in other European countries and is marketed aggressively. Olmetec Plus®, a combination product consisting of *Olmesartan* and a diuretic, is also expected to contribute to sales growth. It went on sale on 2005 and will be available in all major European countries by the end of fiscal 2007. The products are sold in collaboration with Menarini, which has a Europe-wide sales network, as well as with other companies, including Pfizer and Nycomed, in certain other countries.

The DSE Group aims to accelerate growth in sales of Olmetec® and Olmetec Plus®. It is also working toward early launches for CS-8663, a combination product consisting of the calcium channel blocker *Amlodipine besylate* and *Olmesartan*, and for the anti-platelet agent *Prasugrel* (CS-747). The Group's sales target is ¥70 billion or more by fiscal 2009. It plans to expand its MR force gradually to 1,000, while also improving profit margins through improvements in operating efficiency.

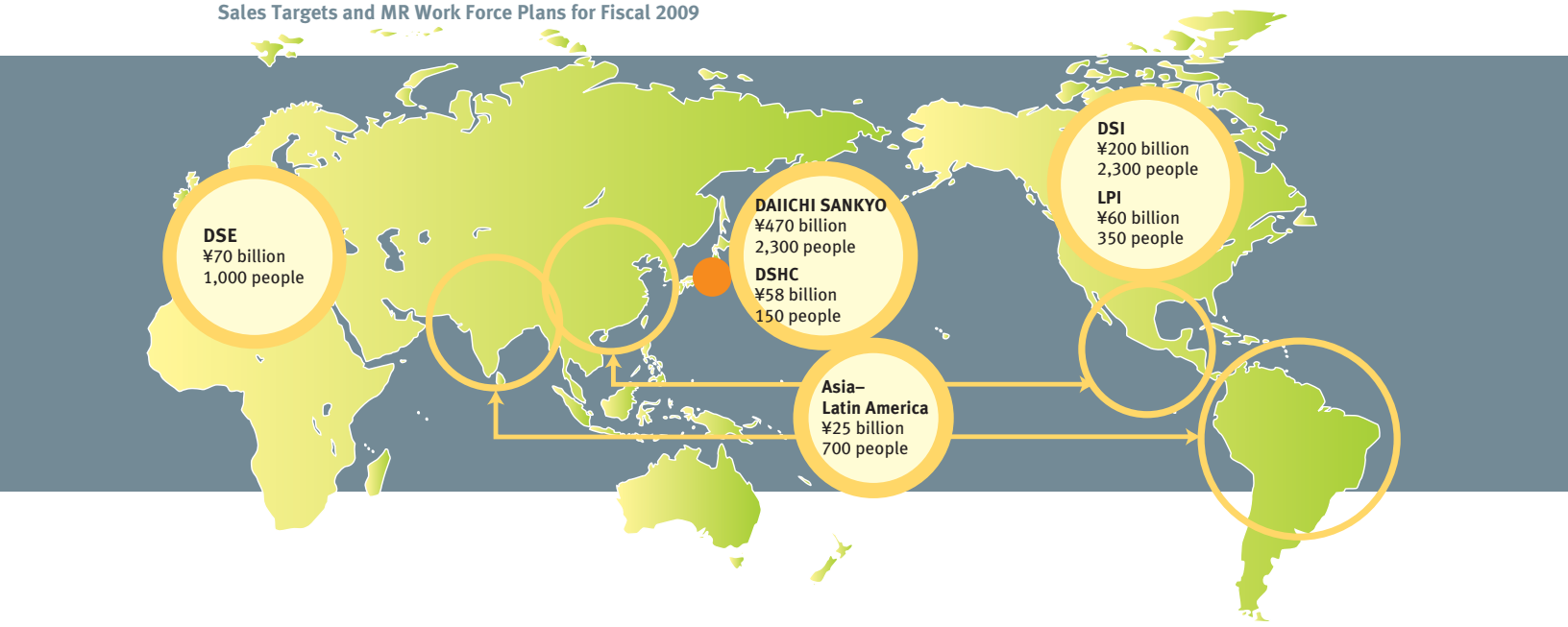
Our Business Activities in Asia and Latin America

In addition to its major markets in Japan, the U.S. and Europe, DAIICHI SANKYO is also focusing on the markets of Asia and Latin America, which are expected to expand dramatically in the future. We plan to expand our business infrastructure and build these markets into a fourth pillar of our activities. DAIICHI SANKYO has group companies in Beijing and Shanghai, China, as well as in the Republic of Korea, Taiwan, Thailand, Brazil and Venezuela. We aim to increase our sales, especially of *Olmesartan* and *Levofloxacin*, in these markets. Another new market is India, the world's second most populous nation, where we are currently preparing to establish a sales company. Our sales target for Asia and Latin America is ¥25.0 billion by fiscal 2009.

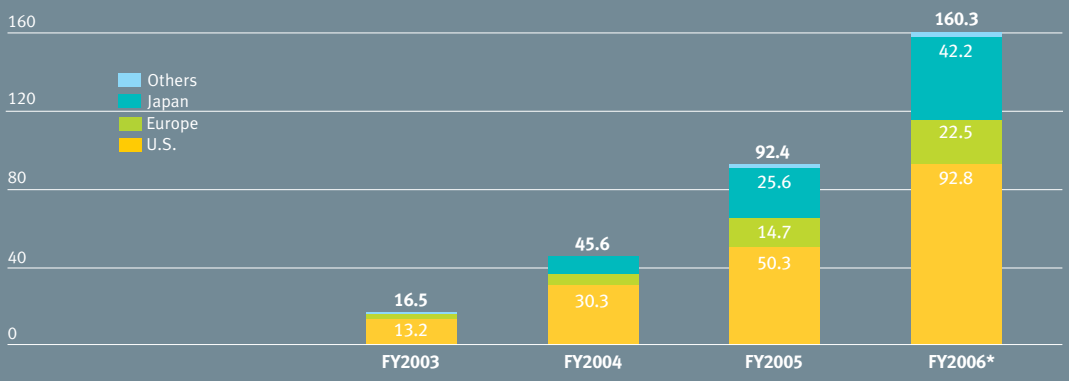
Building Global Sales Infrastructure Based on Four Key Markets

By fiscal 2009, as a step toward becoming a **Global Pharma Innovator**, we aim to achieve global sales of ¥960 billion and an overseas sales ratio of 40% or more. We will achieve this by building sales infrastructure based on four key markets: Japan, the U.S., Europe and Asia–Latin America.

Sales Targets and MR Work Force Plans for Fiscal 2009



Global Sales Trend of *Olmesartan* (¥ billion)



* Fiscal 2006 for U.S. subsidiary DAIICHI SANKYO, INC. spans 15 months

Olmesartan—Our Global Strategic Product

Olmesartan (generic name: *Olmesartan medoxomil*) is the best-in-class angiotension Ⅱ receptor blocker (ARB) used to treat hypertension. It has the strongest blood pressure-lowering effect among ARBs, and is expected to provide organ protection effects. ARBs are relatively new drugs with excellent antihypertensive effects and safety, and their sales are growing worldwide.

Olmesartan has been on sale in the U.S. since May 2002 as Benicar®. It was launched in Germany in October 2002 and in Japan in May 2004 as Olmetec®. Today it is available in over 40 countries worldwide. In the U.S. and Europe, there has also been a dramatic increase in sales of a combination product consisting of *Olmesartan* and a diuretic, marketed as Benicar HCT® in the U.S. and Olmetec® Plus in Europe. In 2007, we plan to launch AZOR™, which combines the calcium channel blocker *Amlodipine besylate* with *Olmesartan*, in the U.S.

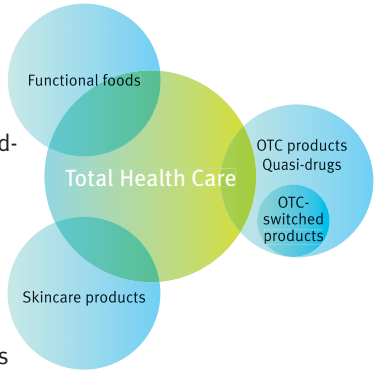
When we first launched *Olmesartan*, our initial target for global sales was ¥100 billion. In fiscal 2006, the fifth year after the launch, sales almost reached ¥150 billion. We now see *Olmesartan* as the most important mid-term growth driver for DAIICHI SANKYO, and we are aiming to exceed the ¥200 billion mark in the near future.

The antihypertesive agent *Olmesartan* (marketed as Benicar® in U.S., Olmetec® in Japan and Europe)

Moriya Ideguchi

Representive Director, President
DAIICHI SANKYO HEALTHCARE CO., LTD.

Aiming at the Realization of Total Healthcare



The Japanese healthcare environment is undergoing dramatic changes. Due to a rapidly aging society and rising social security costs, the government has initiated various healthcare reforms. People are also becoming increasingly focused on health, and there is a growing trend toward the idea of using self-medication to maintain personal health.

DAIICHI SANKYO aims to enhance its support for self-medication by stepping up its activities in the field of OTC products, which it regards as one of its core businesses. This includes not only OTC products but also peripheral products, such as functional foods and skincare products.

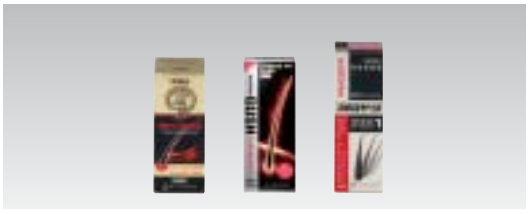
On April 1, 2007, DAIICHI SANKYO HEALTHCARE CO., LTD. merged with Zepharma Inc., creating a single organization capable of applying the R&D and marketing capabilities of a major pharmaceutical company to the development and supply of user-focused products and services with a high level of customer satisfaction.

The new company, which retains the name DAIICHI SANKYO HEALTHCARE (DSHC), has multiple brands, each backed by product concepts. By forming franchises with multiple brands in specific fields, such as cold remedies and gastrointestinal medicine, DSHC promotes not only products individually, but also the franchise coordinated as a whole. This approach has given DSHC an important advantage in the market.

The company is also expanding other markets, including skincare products, functional foods and OTC-switched products, which are over-the-counter (OTC) medicines containing the same ingredients as prescription drugs. It aims to achieve sales of ¥58 billion and an operating income margin of 10% or more by fiscal 2009.

Cold remedies

Gastrointestinal medicine



Hair-growth stimulants

Analgesic and anti-inflammatory products

Committed to responsible **action**

Contributing to Society

Quality is a major focus of our efforts to enhance the corporate value of DAIICHI SANKYO. We believe that the expansion of corporate value must be based on harmony among economic, social and humanistic values. While working as an economic entity to maximize our sales and income, we also need to ensure that our activities are welcomed by society and people.

The most important way in which we contribute to society is to supply innovative pharmaceuticals, and thereby help people throughout the world to enjoy healthy, fulfilling lives. However, we also recognize that we need to be a good corporate citizen in other ways, including complying with laws and business ethics, engaging in environmental protection, contributing to artistic and cultural activities and providing good employee welfare systems. Building on the strong social commitment of Sankyo and Daiichi, we will remain dedicated to this philosophy as we continue to grow.

Corporate social responsibility (CSR) must include an active commitment to the protection of the global environment. The entire DAIICHI SANKYO Group is working to conserve energy and resources and reduce waste. Our contribution to the establishment of an environmentally harmonious recycling-based society also includes the development of environment-friendly products. We inform the public about our specific social and environmental initiatives in our CSR Reports.

DAIICHI SANKYO is also involved in a variety of grass-roots social contribution activities. For example, we support the Mito Chamber Orchestra, the Shiki Theatre Company, a children's soccer project, and junior lifesavers classes. Through these initiatives, we help to encourage cultural and artistic activities and support the healthy development of young people.

DAIICHI SANKYO's mission calls for sustained efforts to achieve harmony with society through these activities, regardless of short-term trends in business performance. Through these initiatives, we believe that we can "contribute to the enrichment of quality of life around the world."

DAIICHI SANKYO Group
CSR Report 2006


Children's soccer project


Junior lifesavers classes

Corporate Governance

The continuing improvement of corporate governance is a key management priority for DAIICHI SANKYO, both to ensure that our business activities as a **Global Pharma Innovator** comply with global rules and social expectations, and also to maintain our ability to adapt quickly to changes in our business environment.

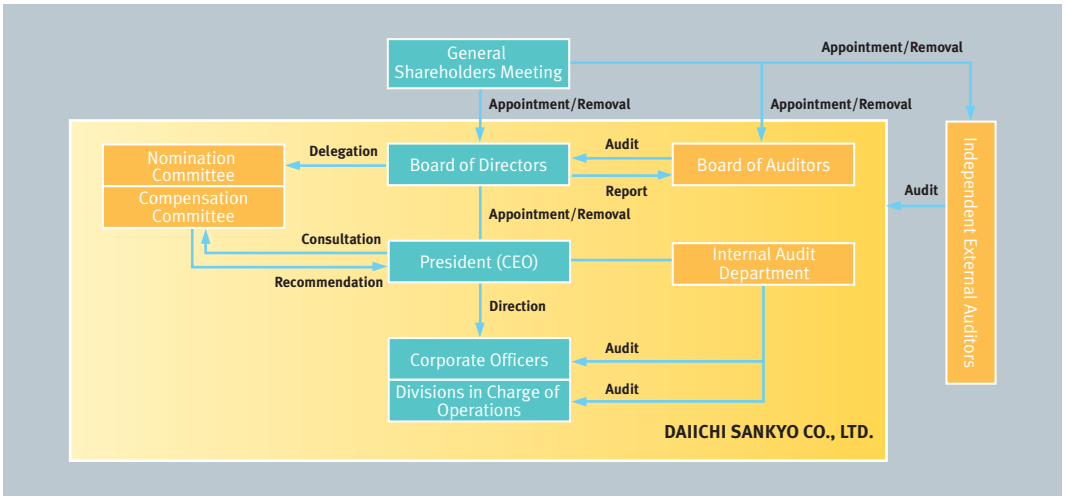
As part of an industry that affects people's lives, we must base our activities on high ethical standards and a social conscience. We have established internal rules, including a Corporate Conduct Charter and a code of conduct, together with a structure to ensure sound, flexible management based on regulatory compliance and observance of these corporate rules.

A vital component of this structure is our governance organization, which consists of directors and auditors. The directors carry out tasks stipulated in laws, regulations and our company articles. They also make decisions on important matters relating to management and business operations, while mutually supervising the performance of their duties. The ten-member Board of Directors includes four external directors, who help to ensure the sound and appropriate performance of business operations. The auditors are independent and operate under the mandate of the shareholders. By auditing the performance of directors' duties to ensure that all decisions are sound and comply with the law, the auditors maintain a robust governance structure capable of maintaining public confidence and supporting sustained, healthy corporate growth.

We have also introduced a corporate officer system designed to enhance operational flexibility and maintain a high degree of professionalism. Corporate officers are appointed by the Board of Directors to perform specific duties under the direction and supervision of the President as representative director. The President is advised by the Management Committee, which meets regularly to discuss basic management policies and plans and receive reports on important aspects of business operations.

Internal audits play an important role in the effective achievement of management goals. They are conducted according to plans drawn up by the Internal Audit Department. Audit perspectives include the effectiveness and efficiency of business operations, the reliability of financial reports, regulatory compliance in business operations, and asset protection. Internal audits cover all divisions and departments of DAIICHI SANKYO CO., LTD. and its Group companies. Where necessary, business partners are also audited.

Corporate Governance Structure



Board of Directors

Front row (from left):

Director
Hitoshi Matsuda

Chairman
Kiyoshi Morita

President and CEO
Takashi Shoda

Director
Tsutomu Une

Outside Director
Kunio Nihira

Outside Director
Jotaro Yabe

Director
Ryuzo Takada

Director
Akio Ozaki

Outside Director
Katsuyuki Sugita

Outside Director
Yoshifumi Nishikawa

Directors

*Representative Director and Chairman	Kiyoshi Morita
*Representative Director, President and CEO	Takashi Shoda
*Director	Akio Ozaki
*Director	Ryuzo Takada
*Director	Hitoshi Matsuda
*Director	Tsutomu Une
Outside Director	Kunio Nihira
Outside Director	Yoshifumi Nishikawa
Outside Director	Jotaro Yabe
Outside Director	Katsuyuki Sugita

*Concurrently serving as Corporate Officer

Corporate Auditors

Corporate Auditor	Teruo Takayanagi
Corporate Auditor	Hikaru Nagata
Outside Corporate Auditor	Kaoru Shimada
Outside Corporate Auditor	Koukei Higuchi

Corporate Officers

Executive Officer	Yoshihiko Suzuki
Executive Officer	Toru Kuroda
Executive Officer	Akira Nagano
Executive Officer	Kazuhiko Tanzawa
Executive Officer	Takeshi Ogita
Executive Officer	Kazunori Hirokawa
Corporate Officer	Hiroshi Sugiyama
Corporate Officer	Chiyomi Takahashi
Corporate Officer	Masatoshi Sakamoto
Corporate Officer	Satoru Sugano
Corporate Officer	Toshio Takahashi
Corporate Officer	Kyohei Nonose
Corporate Officer	Yoshikazu Takano
Corporate Officer	Shinsei Tamai
Corporate Officer	Manabu Sakai
Corporate Officer	Ryouichi Kibushi
Corporate Officer	George Nakayama
Corporate Officer	Yuki Sato
Corporate Officer	Shuji Handa
Corporate Officer	Hideyuki Haruyama

Financial section

Contents

Consolidated Financial Summary

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006 (Fiscal years 2006 and 2005)

As of and for the years ended March 31,	2007 Millions of yen	2006 Millions of yen	2007 Thousands of U.S. dollars (Note 1)
Operating Results:			
Net sales	¥929,507	¥925,918	$7,877,178
Cost of sales	265,201	290,736	2,247,466
Selling, general and administrative expenses	357,330	321,738	3,028,220
Research and development expenses	170,662	158,716	1,446,289
Interest expenses	252	313	2,136
Income before income taxes and minority interests	126,913	136,892	1,075,534
Net income	78,550	87,693	665,678
Net income per share of common stock (yen and U.S. dollars)	107.75	119.49	0.91
Dividends paid per share (yen and U.S. dollars)	60.0	25.0	0.51
Financial Position:			
Total current assets	1,015,841	958,483	8,608,822
Net property, plant and equipment	248,857	289,713	2,108,958
Total assets	1,636,835	1,596,127	13,871,483
Total current liabilities	281,510	236,833	2,385,678
Total long-term liabilities	83,177	110,155	704,890
Total net assets	1,272,148	1,249,139	10,780,915
Financial Indicators (% and persons):			
Pre-tax profit margin (Ratio of net income before income taxes and minority interests to net sales)	13.7	14.8	13.7
Net profit margin (Ratio of net income to net sales)	8.5	9.5	8.5
Return on shareholders' equity (Ratio of net income to average shareholders' equity)	6.3	7.3	6.3
Net assets to total assets	77.5	77.5	77.5
Dividends to net assets	3.5	2.9	3.5
Research and development expenses as a percentage of net sales	18.4	17.1	18.4
Number of employees	15,358	18,434	15,358

THE STATE OF THE DAIICHI SANKYO GROUP

DAIICHI SANKYO CO., LTD ("the Company") was established as a joint stock holding company through a transfer of shares in Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. on September 28, 2005.

The DAIICHI SANKYO Group consists of 71 companies, including DAIICHI SANKYO CO., LTD and its 64 subsidiaries and six affiliates. The Group's principal activity is the manufacture and sales of pharmaceuticals and related products.

OVERVIEW OF BUSINESS RESULTS

In the global pharmaceutical market, the pace of expansion was generally slow. This trend resulted in part from the impact of generics on the growth of the giant U.S. pharmaceuticals market. In Europe and Japan, growth was blunted by government measures to curb health expenditure by targeting drug prices. The situation in Japan, which is the core market for the DAIICHI SANKYO Group, was especially difficult because of intense competition from other major pharmaceutical manufacturers, including foreign companies. The DAIICHI SANKYO Group's strategy in this environment was to develop and expand our product range. As always, our basic priority was to ensure the appropriate use of pharmaceutical products, and we continued our efforts to distribute accurate scientific information in forms that matched the wide-ranging needs of medical professionals.

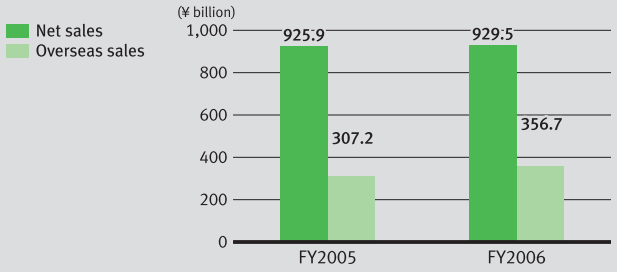
Our consolidated operating results for the year ended March 31, 2007 included net sales of ¥929.5 billion, a year-on-year increase of 0.4%. Operating income was 11.9% lower at ¥136.3 billion, while net income declined by 10.4% to ¥78.5 billion.

SALES

Net sales increased by ¥3.5 billion, or 0.4%, year on year to ¥929.5 billion. This result reflects several special factors, notably the spin-off of non-pharmaceutical activities from the consolidation, which reduced sales by ¥64.3 billion, changes to the accounting periods of U.S. subsidiaries, which added ¥31.5 billion and the addition of Zepharma Inc. to the consolidation, which added ¥22.5 billion. If these factors are excluded, the real increase was ¥13.9 billion, or 1.5%.

Bulk exports of the antihyperlipidemic agent *Pravastatin* were substantially lower following the expiration of patent protection in the U.S. However, there was a dramatic increase in sales of the antihypertensive drug *Olmesartan*. Other products to show sales growth include the antihyperlipidemic agent WelChol® and the anemia drug Venofer®. There was also sustained growth in sales of *Levofloxacin*, an orally administered broad-spectrum antibacterial agent.

Consolidated net sales and overseas sales



Sales of Key Products (¥ billion)

Product name	FY2005 Results ①	FY2006 ②	FY2006 Change (yoy) ②–①	FY2006 Reference value*
GLOBAL				
Olmesartan (antihypertensive)	92.4	160.3	67.9	52.3
Levofloxacin (antibacterial agent)	101.5	104.1	2.6	
Pravastatin (antihyperlipidemic agent)	143.2	93.5	(49.7)	
Japan				
Calblock® (antihypertensive)	6.4	8.8	2.4	
Artist® (long-acting beta-blocker)	18.2	19.3	1.1	
Kremezin® (treatment for chronic renal failure)	13.0	12.2	(0.8)	
Loxonin® (non-steroidal analgesic and anti-inflammatory agent)	29.0	30.9	1.9	
Omnipaque® (non-ionicity contrast agent)	34.7	31.5	(3.2)	
Urief® (treatment for dysuria)	—	2.3	—	
U.S.				
Venofer® (treatment for iron deficiency anemia)	22.6	37.7	15.1	8.2
WelChol® (antihyperlipidemic agent)	14.8	23.2	8.4	4.5

*Fiscal 2006 for U.S. subsidiaries DSI and LPI spans 15 months (January 2006–March 2007). The amounts reflecting this change are shown under Reference value.

SALES BY SEGMENT

■ Pharmaceuticals

This segment consists of the prescription drug business and the healthcare (OTC) business. The DAIICHI SANKYO Group manufactures and sells prescription drugs, OTC drugs and quasidrugs (a Japanese classification for regulated, non-prescription drugs). Sales in this segment increased by ¥52.4 billion, or 6.7%, year on year to ¥837.1 billion.

In the Japanese prescription drug market, a review of drug prices under Japan's National Health Insurance reimbursement system led to price reductions averaging 6.7% across the pharmaceutical industry. There was also further growth in the number of institutions using the diagnosis-procedure combination (DPC) reimbursement system, under which payments are based on totals for each diagnostic category rather than for individual procedures. Other factors that presented challenges for the pharmaceutical industry were the government's efforts to expand the use of generic prod-

ucts, and new legislation reforming pharmaceutical-related regulations.
In this market environment, increased sales of generic products and escalating competition were reflected in reduced sales of some products, including the antihyperlipidemic agent Mevalotin® and the contrast medium Omnipaque®. However, sharply higher sales of the antihypertensive drug Olmetec® (marketed as Benicar® in the U.S.), as well as increases in other areas, including higher sales of the analgesic, anti-inflammatory agent Loxonin® following the introduction of an additional dosage form, helped to expand domestic sales of prescription pharmaceuticals by ¥2.0 billion, or 0.5%, over the previous year's level to ¥433.4 billion.

A key event overseas was the enactment of Medicare Part D in the U.S. in January 2006. While this system expanded the range of patients eligible for medical insurance coverage, it also has the potential to increase the scope of government regulation. The growth impetus provided by new products was not sufficient to offset stagnating sales of existing products resulting from the shift to generics following the expiration of patent protection.

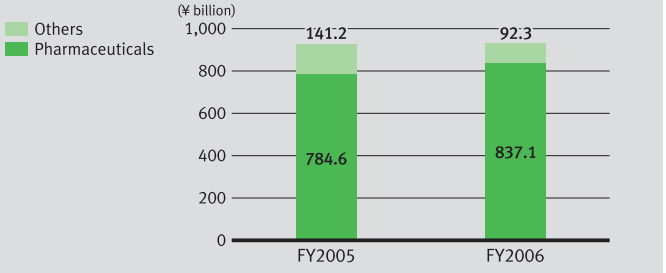
Conditions in the European market were generally stagnant. This reflects the continual tightening of government control over the market, including moves to exclude some pharmaceutical products from eligibility for insurance payments, and measures to encourage the use of alternative products.
The DAIICHI SANKYO Group faced a sharp decline in bulk exports of the antihyperlipidemic agent *Pravastatin*, following the expiration of patent protection in the U.S. However, there was a dramatic increase in the sales of Benicar®/Olmetec® in the U.S. and Europe, and sustained growth in sales of other products, including the antihyperlipidemic agent WelChol®, the anemia drug Venofer® and the broad-spectrum antibacterial agent *Levofloxacin*. These factors helped to lift overseas sales of prescription pharmaceuticals by ¥48.5 billion, or 16.8%, year on year to ¥338.0 billion.
Sales of healthcare products reached ¥47.9 billion, a year-on-year increase of ¥20.0 billion, or 71.9%. In Japan, the government undertook a major review of regulations covering healthcare products for the first time in 46 years and commenced a transition to a new regime based on the amended Pharmaceutical Affairs Law.

The DAIICHI SANKYO Group has positioned healthcare products alongside pharmaceutical products as a core business segment. In April 2006, we acquired all shares in Zepharma Inc. as part of our efforts to fulfill our mission in this segment, which is to contribute to improvement in the quality of life by helping people to become more attractive and healthy. In April 2007, Zepharma merged with another DAIICHI SANKYO Group company, Daiichi Sankyo Healthcare Co., Ltd., and the resulting company is now operating as DAIICHI SANKYO HEALTHCARE CO., LTD.

Other Activities

In this segment, DAIICHI SANKYO manufactures and sells agrochemicals and chemicals and engages in real estate-related activities. In the year ended March 2007, sales declined by ¥48.8 billion, or 34.6%, year on year to ¥92.3 billion.

Net Sales by Business Segment



SALES BY GEOGRAPHICAL SEGMENT

Japan

Sales of the antihypertensive drug Olmetec® were dramatically higher in the Japanese market, and there was also growth in sales of healthcare products following the addition of Zepharma Inc. to the consolidation. However, the expiration of patent protection in the U.S. inevitably brought a significant reduction in bulk exports of *Pravastatin*. Results were also affected by the spin-off of non-pharmaceutical activities from the consolidation. At ¥667.8 billion, sales were ¥84.9 billion, or 11.3%, lower than in the previous year.

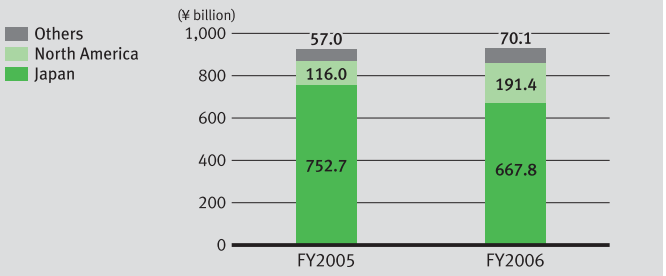
North America

The results for DAIICHI SANKYO, INC. and Luitpold Pharmaceuticals, Inc. cover 15 months because of a change in the two companies' accounting periods. There was also a substantial increase in sales of the antihypertensive drug Benicar®. These factors were reflected in sales of ¥191.4 billion, an increase of ¥75.4 billion, or 65.0%, year on year.

Other Regions

Sales in Europe increased by ¥13.1 billion, or 23.0%, year on year to ¥70.1 billion. Factors contributing to this growth included higher sales of Olmetec®.

Net Sales by Region



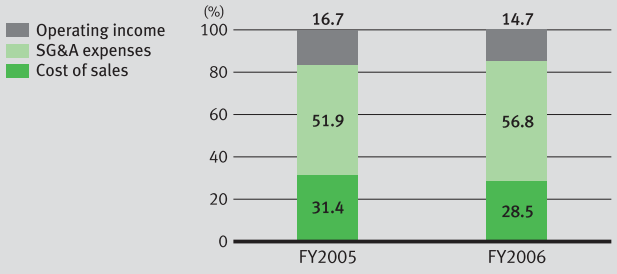
GROSS PROFIT ON SALES

Consolidated gross profit on sales increased by ¥29.1 billion, or 4.6%, over the previous year's figure to ¥664.3 billion. The cost of sales fell by ¥25.5 billion, or 8.8%, year on year to ¥265.2 billion, in part because of the spin-off of non-pharmaceutical activities from the consolidation, and a change in the accounting period of subsidiaries in the U.S. The cost of sales ratio improved by 2.9 percentage points to 28.5%.

OPERATING INCOME

In the year under review, operating income declined by ¥18.4 billion, or 11.9%, year on year to ¥136.3 billion, or 14.7% of net sales. Selling, general and administrative expenses increased by ¥47.5 billion, or 9.9%, to ¥527.9 billion. This reflects the expansion of activities in the U.S., including marketing of the antihypertensive drug Benicar®, which resulted in a ¥25.9 billion year-on-year increase in advertising and sales promotion expenditure. Another factor was increased R&D expenditure, which was ¥11.9 billion higher than in the previous year. This is linked to our efforts of developing global products and expanding our strategic alliances.

Ratios of Costs, Expenses and Operating Income to Net Sales



OTHER INCOME, NET

Other income, net improved by ¥8.4 billion year on year. The main income items were interest and dividends amounting to ¥11.2 billion, income from derivatives amounting to ¥2.6 billion, gains of ¥59.3 billion on the disposal of shares in non-pharmaceutical affiliated companies in preparation for their separation from the Group as independent entities, and gain on sales of investment securities amounting to ¥8.2 billion. There were also restructuring losses amounting to ¥82.4 billion, consisting mainly of work force normalization expenses following the completion of the merger between Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd., and business restructuring losses of ¥3.6 billion relating to the spin-off of non-pharmaceutical companies from the Group.

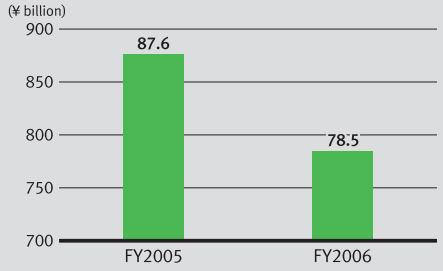
NET INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

Net income before income taxes and minority interests amounted to ¥126.9 billion. This is ¥9.9 billion, or 7.3%, lower than the result for the previous fiscal year.

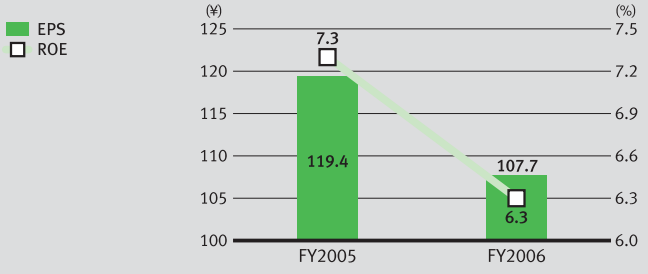
NET INCOME

Net income for the fiscal year ended March 31, 2007 amounted to ¥78.5 billion, a decline of ¥9.1 billion, or 10.4%, year on year. Income taxes totaled ¥48.0 billion. This is equivalent to 37.9% of net income before income taxes and minority interests, compared with 35.9% in the previous fiscal year. Net income per share (EPS) declined by ¥11.7 from the previous year's level to ¥107.7. Return on equity (ROE) declined by 1.0 percentage points to 6.3%.

Net Income



EPS and ROE



DIVIDENDS

The Company regards the distribution of profits generated by the DAIICHI SANKYO Group businesses as one of its key management priorities. Profit distribution is determined partly with regard to the level of return deemed commensurate with underlying business performance and capital efficiency. Dividends also reflect thorough consideration of other factors, such as the need to build up retained earnings to fund future business development and strategies for growth.

In the three-year period from April 1, 2007 to March 31, 2010, the Company plans, as a rule, to maintain funds assigned to dividend payments and share buybacks at a level equivalent to net income. As it continues to grow, the Company also plans to steadily raise the level of dividends with the aim of achieving a dividend payout ratio of around 50% in the fiscal year ending March 31, 2010, along with a dividend-on-equity (DOE) ratio of 5% or higher. At the same time, the Company plans to adopt a flexible stance toward share buybacks. Undistributed retained earnings will be used primarily to fund investments targeting future growth, including moves to strengthen R&D, boost corporate collaboration and reinforce overseas business development.

In line with this policy, the Company decided to pay total dividends of ¥60 per share for the fiscal year ended March 31, 2007 (including an interim dividend of ¥30 per share). This represents an increase of ¥10 in real terms compared with the previous year. These figures translate into a consolidated dividend payout ratio of 55.7% and a consolidated DOE ratio of 3.5%.

R&D ACTIVITIES

The DAIICHI SANKYO Group's R&D investments, mostly incurred in the pharmaceuticals segment, totaled ¥170.6 billion in the fiscal year ended March 31, 2007, a rise of 7.5% year on year. The ratio of R&D investments to sales was 18.4%.

The R&D activities of the DAIICHI SANKYO Group are directed at realizing the Company's vision of being a "Global Pharma Innovator." The Group has focused its R&D investments in four target therapeutic areas (thrombosis, diabetes, cancer, and autoimmune diseases/rheumatoid arthritis) with the aim of bringing a continuous stream of world-class innovative drugs to market while simultaneously trying to shorten product lead times.

There were several R&D-related successes during the year under review. In September 2006, the Company filed an application in Japan for regulatory approval of DU-6859a (generic name: sitafloxacin), a new quinolone-type synthetic antibacterial. The Company also received import approval in October 2006 for Sonazoid® (generic name: perflubutane), an ultrasound contrast medium, and in January 2007, the product was launched in Japan.

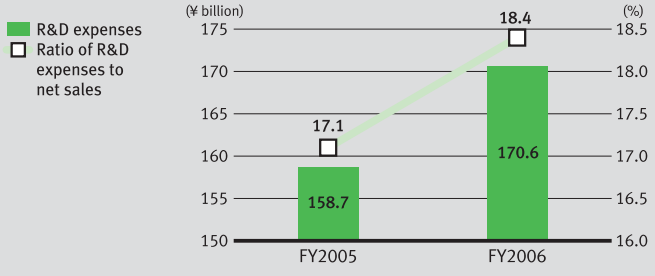
In the U.S., the Group filed an application in November 2006 for regulatory approval of CS-8663, a combination antihypertensive containing *Olmesartan* and Amlodipine, and in December 2006 filed a supplemental New Drug Application (sNDA) with the U.S. Food and Drug Administration (FDA) to gain an additional indication for treatment of type II diabetes for the antihyperlipidemic agent WelChol®. In addition, the Company received regulatory approval in Japan for ActHIB®, a vaccine for preventing Haemophilus influenzae type b infections, and is currently preparing to launch the product.

The Group continues to focus on moves to build alliances aimed at further enhancing the development pipeline or acquiring innovative drug discovery technology. In an in-licensing move, the Company reached an agreement in July 2006 with CIMYM BioSciences Inc., granting the Group exclusive sales and development rights in Japan for the anticancer drug *Nimotuzumab* (development code: DE-766, a human monoclonal antibody). Separately, in August 2006 the Group reached an agreement with Ajinomoto Co., Inc. that granted the Group global development, manufacturing and sales rights for AJD101, a novel diabetes treatment that is currently in Phase I clinical trials outside Japan. Elsewhere, with the aim of augmenting drug-discovery efforts, the Group is also pursuing other approaches such as investment in healthcare venture funds.

In terms of the status of other key pipeline projects, the Company terminated development work on DJ-927, a taxane derivative (oral anticancer), after comparator studies failed to demonstrate sufficient efficacy. Clinical trials in the U.S. on DW-908e, a VLA-4 inhibitor (anti-allergic), were also suspended when comparator studies using rival drugs with a similar mechanism of action pointed to the uncertainty of prospects for breaking the clinical hold of such products in the U.S. market. Elsewhere, based on a pipeline management perspective, the Company decided to return development rights for an agent used to reduce reperfusion injury in acute myocardial infarction (development code: CS-9803) that is currently under joint development with U.S.-based KAI Pharmaceuticals, Inc.

The pipeline drugs currently selected as the DAIICHI SANKYO Group's top-priority development projects are: *Prasugrel* (CS-747), an anti-platelet agent; DU-176b, a factor-Xa inhibitor; CS-8663, an antihypertensive; and DZ-697b, an anti-platelet agent. Data from Phase I clinical studies demonstrating the superior medical effect of *Prasugrel* over current anti-platelet therapy benchmark treatments were published at the Transcatheter Cardiovascular Therapeutics annual conference that was held in the U.S. in October 2006. Patient enrollment for Phase III clinical trials on *Prasugrel* outside Japan was also completed in January 2007.

R&D Expenses and Ratio of R&D expenses to Net Sales



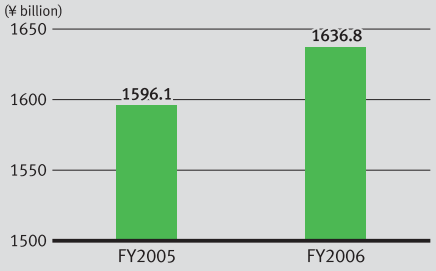
LIQUIDITY AND FINANCIAL POSITION

Total assets as of March 31, 2007 amounted to ¥1,636.8 billion, an increase of ¥40.7 billion, or 2.6%, compared with the position a year earlier. A breakdown of this total shows that current assets increased by ¥57.3 billion, or 6.0%, year on year to ¥1,015.8 billion, while tangible fixed assets declined by ¥40.8 billion, or 14.1%, to ¥248.8 billion. Intangible fixed assets increased by ¥23.9 billion, or 66.3%, to ¥60.1 billion, and investments and other assets rose by ¥200 million, or 0.1%, to ¥311.9 billion.

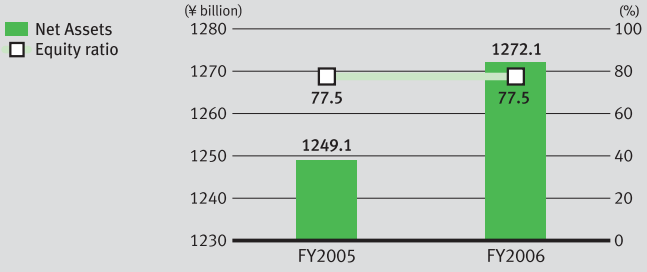
Current liabilities increased by ¥44.6 billion, or 18.9%, to ¥281.5 billion, while fixed liabilities declined by ¥26.9 billion, or 24.5%, to ¥83.1 billion.

Net assets as of March 31, 2007 were ¥1,272.1 billion, an increase of ¥23.0 billion, or 1.8%, over the previous year's position. Net assets per share were ¥43.3 higher at ¥1,740.2.

Total Assets



Net Assets and Ratio of Net Assets to Total Assets



CASH FLOWS

Cash Flows from Operating Activities

At ¥106.4 billion, net cash provided by operating activities was ¥26.3 billion lower year on year. In addition to a ¥9.9 billion decline in net income before income taxes and minority interests, there was also a ¥67.5 billion loss on sales of investment securities and shares in affiliated companies (transferred to cash flows from investing activities), as well as a ¥28.5 billion reduction in the reserve for retirement benefits, resulting in part from voluntary retirements. However, cash flows were increased by a reduction in operating funds, including trade receivables, inventory assets, accounts payable, accrued accounts payable and accrued expenses.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥45.3 billion, compared with ¥39.2 billion used in the previous fiscal year. Expenditure on the acquisition of tangible and intangible fixed assets amounted to ¥42.9 billion, and there was also expenditure of ¥27.2 billion on the acquisition of shares in new consolidated subsidiaries. However, income amounted to ¥91.0 billion, including proceeds from sales of shares in subsidiaries.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥40.7 billion, including dividend payments of ¥40.0 billion. Our policy in the three years from April 2007 until April 2010 is, in principle, to provide returns equivalent to net income through dividends and share buybacks. As a result, net cash used for financing activities is expected to increase significantly in the next fiscal year and beyond.

Cash Flow Highlights (¥ billion)

	FY2005	FY2006
Net cash provided by operating activities	132.7	106.4
Net cash provided by (used in) investing activities	(39.2)	45.3
Net cash used in financing activities	(50.1)	(40.7)
Effect of exchange rate changes on cash and cash equivalents	3.7	0.4
Net increase in cash and cash equivalents	47.1	111.3
Cash and cash equivalents at end of year	400.9	513.2

OUTLOOK FOR THE YEAR ENDING MARCH 31, 2008

The merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into the Company was completed on April 1, 2007. On the following day, DAIICHI SANKYO commenced business as an operating company focused primarily on prescription drug operations.

The various preparatory moves culminating in the completion of the business integration process have involved finding complete solutions to numerous major issues, including management system construction, operational and functional reorganizing, the integration of HR and IT systems, and workforce resizing. In the year ending March 2008, the DAIICHI SANKYO Group plans to leverage marketing power to reap the rewards of integration as quickly as possible. At the same time, the Company plans to focus on further improving the quality of management and on increasing operational efficiency.

On the sales front, in domestic prescription drug operations the Company plans to focus management resources on making the most effi-

cient use of the 2,300-strong MR sales force to promote and expand sales of core strategic products such as antihypertensive agents Olmetec®, Artist® and Calblock®, the broad-spectrum oral antibacterial agent Cravit® and Urief®, an agent for relieving symptoms of dysuria.
In OTC drug operations, the Company plans to generate growth by leveraging the effects of new product introductions. In overseas prescription drug operations, while exports of the antihyperlipidemic agent *Pravastatin* are expected to decline further, the Company expects continued solid growth from the *Olmesartan* franchise, which is currently generating rapid growth in sales. In addition, prospects for faster growth in the U.S. market are expected to receive a boost from the anticipated introduction of CS-8663, a combination drug containing *Olmesartan* and the antihypertensive Amlodipine, and from the anticipated approval of a new indication covering the treatment of type II diabetes for WelChol® (which, if approved, would mark the first extension of the use of an antihyperlipidemic agent into this field).
In Europe, the Company plans to further raise operational efficiency while maintaining a focus on building close and cooperative relationships with alliance partners to increase market share. Elsewhere, the Company plans to boost its global presence by working to strengthen the business base in markets across Asia, Central and Latin America.

In line with plans to focus resources on the pharmaceutical business, the Company expects reorganization efforts in the fiscal years to March 31, 2007 and March 31, 2008 to reduce sales in the year ending March 31, 2008 by ¥104.2 billion. Including the effects of changes to the fiscal year-end of U.S. subsidiaries (¥31.5 billion), the aggregate negative year-on-year impact on sales in the year ending March 31, 2008 is projected to equal ¥135.7 billion. Taking such factors into account, the DAIICHI SANKYO Group projects a 10.0% decline in consolidated net sales to ¥837.0 billion. Excluding the aforementioned impact of restructuring (¥135.7 billion), sales from existing businesses are expected to grow by ¥43.2 billion, or 5.4%, year on year.

On the cost side, the Company plans to invest aggressively in upgrading its drug discovery platform to realize the early development of innovative new drugs. Plans call for maintaining R&D investments at a suitable level to ensure that development remains on track with R&D pipeline stage-transition plans. Elsewhere, the Company aims to continue investing in overseas markets to rapidly develop its business base in Europe and the U.S. The Company also expects to realize various cost synergies and other benefits from enhanced operational efficiency.

At the same time, efforts will also continue in the fiscal year to March 31, 2008 to establish non-pharmaceutical businesses as fully independent operations outside the Group. Taking such factors into account, the DAIICHI SANKYO Group projects a 15.2% increase in operating income to ¥157.0 billion and 8.5% growth in ordinary income to ¥165.0 billion. Excluding the aforementioned effects of reorganization, the Company forecasts real year-on-year growth of 30.7% in operating income and 22.7% in ordinary income. Although proceeds from the sale of businesses due to reorganizing are expected to decline, the Company expects such extraordinary gains to outweigh any business integration-related losses. Net income for the year ending March 31, 2008 is forecast to reach ¥92.0 billion, an increase of 17.1% compared with the previous year.

The above forecasts assume average exchange rates of ¥115 against the U.S. dollar and ¥140 against the euro for translating the results of overseas Group companies into yen.

Effective the fiscal year ending March 31, 2008, the Group's European subsidiary DAIICHI SANKYO EUROPE GmbH will change its fiscal year-end from December to March. As a result, forecasts for the fiscal year ending March 31, 2008 include a contribution from this company corresponding to the 15-month period from January 1, 2007 to March 31, 2008. This subsidiary recorded sales of approximately ¥12 billion for the period January–March 2007, and the impact on consolidated profits for the same period was immaterial.

For the fiscal year ending March 31, 2008, the Company plans to pay total dividends of ¥70 per share (including an interim dividend of ¥35 per share).

BUSINESS RISKS AND OTHER RISKS

The following section provides an overview of the principal risks that could affect the business results and financial condition of the DAIICHI SANKYO Group. Any forward-looking statements or projections contained in this overview represent the best judgment of DAIICHI SANKYO Group management as of this fiscal year ended March 31, 2007.

■ Research and Development Risk

R&D of new drug candidates is an extremely costly process that requires many years to complete successfully. During this time there is a continual risk that R&D activities on a particular compound may be terminated due to failure to demonstrate expected clinical efficacy. In addition, any changes in the terms of agreements with other third-parties governing R&D-related alliances, or the cancellation thereof, can also materially affect the outcomes of R&D programs.

■ Manufacturing and Procurement Risk

The DAIICHI SANKYO Group manufactures some of its products at its own production facilities using original technology, but is also dependent on

specific suppliers for the supply of some finished products, raw materials and production intermediates. Any delay, suspension or termination of such manufacturing or supply activities for any reason could have a material impact on the Company's business results and financial position.
Manufacture of pharmaceuticals in Japan is subject to strict regulation as stipulated in the Pharmaceutical Affairs Law. Any quality assurance problem that necessitated a product recall could have a material adverse impact on the Company's business results and financial position.

■ Sales-Related Risk

Any decline in sales due to the emergence of unanticipated side effects of a drug, or due to the entry of generic products into a sector following the expiration of a patent, and the introduction of competing products within the same therapeutic area, could have a material impact on the Company's business results and financial position. Any changes in the terms of sales or technology transfer agreements, or the expiration or cancellation thereof, could have a material impact on the Company's business results and financial position.

■ Legal and Regulatory Risk

Prescription drugs in Japan are subject to a variety of laws, regulations and ordinances. Trends in regulatory measures relating to the medical treatment systems and the National Health Insurance (NHI), most notably the NHI price revisions that occur every two years, could have a material impact on the Company's business results and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to a variety of legal and regulatory constraints.

■ Intellectual Property Risk

The business activities of the DAIICHI SANKYO Group could be subject to restraint or dispute in the event of an infringement of the patents or other intellectual property rights of other parties. Conversely, infringement of the intellectual property rights of the DAIICHI SANKYO Group by other parties could lead to a legal action by the Company to protect such rights. In either case, the resulting outcome could have a material impact on the Company's business results and financial position.

■ Environmental Risk

Some of the chemicals used in pharmaceutical research and manufacturing processes include substances with the potential to impact negatively on human health and ecosystems. All DAIICHI SANKYO Group facilities operate on a self-regulated basis according to internal standards designed to prevent the occurrence of any air or water pollution caused by plant emissions.
The DAIICHI SANKYO Group also takes a proactive stance on environmental protection, for instance by employing substitute chemicals wherever possible to reduce the potential environmental impact of chemical substances used. Those efforts notwithstanding, there could be a material impact on the Company's business results and financial position, were the emissions of a DAIICHI SANKYO Group facility determined to have resulted in a serious environmental problem.

■ Litigation-related Risk

Besides potential antitrust issues, the DAIICHI SANKYO Group could also face litigation of various forms concerning its business activities, such as lawsuits related to drug side-effects, product liability or labor disputes. Such developments could have a material impact on the Company's business results and financial position.

■ Currency Fluctuation Risk

Fluctuations in foreign currency exchange rates could have a financially adverse effect on the Company. The DAIICHI SANKYO Group conducts business, including production, sales, import and export activities, on a global basis, and foreign exchange movements could therefore have a material impact on the Company's business results and financial position.

■ Other Risks

Other risks besides those noted above that could have a material impact on the Company's business results and financial position include the suspension of its business activities due to an earthquake or other large-scale natural disaster; the interruption of the Company's computer systems due to a network-mediated virus or other causes; changes in stock prices and interest rates; and collection issues on accounts and loans receivable due to default by a customer or a country-specific problem affecting the customer.

Consolidated Balance Sheets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
March 31, 2007 and 2006

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS			
Current Assets:			
Cash and time deposits (Note 3)	¥ 232,615	¥ 223,979	$ 1,971,314
Marketable securities (Notes 3 and 4)	373,896	274,510	3,168,610
Trade notes and accounts receivable, net of allowance of ¥725 million ($6,144 thousand) and ¥599 million in 2007 and 2006, respectively	196,434	239,575	1,664,695
Inventories (Note 5)	107,759	121,694	913,212
Deferred tax assets (Note 8)	63,365	40,911	536,992
Other current assets	41,772	57,814	353,999
Total current assets	1,015,841	958,483	8,608,822
Property, Plant and Equipment (Notes 6 and 9)**:**			
Land	38,011	48,892	322,127
Buildings and structures	332,267	368,354	2,815,822
Machinery, equipment and vehicles	369,343	405,575	3,130,025
Construction in progress	12,013	10,011	101,806
	751,634	832,832	6,369,780
Accumulated depreciation	(502,777)	(543,119)	(4,260,822)
Net property, plant and equipment	248,857	289,713	2,108,958
Investments and Other Assets (Notes 6 and 9)**:**			
Investment securities (Note 4)	262,240	256,338	2,222,373
Long-term loans receivable, net of allowance of ¥421 million ($3,568 thousand) and ¥530 million in 2007 and 2006, respectively	1,195	5,625	10,127
Deferred tax assets (Note 8)	8,891	7,403	75,347
Other	99,811	78,565	845,856
Total investments and other assets	372,137	347,931	3,153,703
Total assets	¥1,636,835	¥1,596,127	$13,871,483

	2007 Millions of yen	2006 Millions of yen	2007 Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 8,260	¥ 12,648	$ 70,000
Long-term debt due within one year (Note 7)	300	899	2,542
Trade notes and accounts payable	146,028	105,088	1,237,525
Income taxes payable (Note 8)	27,574	26,170	233,678
Accrued expenses	87,535	77,292	741,822
Other current liabilities (Note 8)	11,813	14,736	100,111
Total current liabilities	281,510	236,833	2,385,678
Long-Term Liabilities:			
Long-term debt (Note 7)	1,533	3,375	12,992
Accrued employees' severance and retirement benefits (Note 10)	35,063	68,322	297,144
Accrued directors' severance and retirement benefits	1,038	3,140	8,797
Deferred tax liabilities (Note 8)	36,146	23,927	306,322
Other long-term liabilities	9,397	11,391	79,635
Total long-term liabilities	83,177	110,155	704,890
Total liabilities	364,687	346,988	3,090,568
Commitments and Contingencies (Note 12)			
Net Assets (Note 11):			
Common stock:			
Authorized—2,800,000,000 shares in 2007 and 2006			
Issued—735,011,343 shares in 2007 and 2006	50,000	50,000	423,729
Capital surplus	179,860	179,858	1,524,237
Retained earnings	971,483	936,513	8,232,907
Treasury stock, at cost	(9,996)	(9,832)	(84,712)
Sub total	1,191,347	1,156,539	10,096,161
Net unrealized gain on investment securities	72,359	80,255	613,212
Foreign currency translation adjustments	4,951	735	41,957
Minority Interests	3,491	11,610	29,585
Total net assets	1,272,148	1,249,139	10,780,915
Total liabilities and net assets	¥1,636,835	¥1,596,127	$13,871,483

See accompanying notes.

Consolidated Statements of Income

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	2007 Millions of yen	2006 Millions of yen	2007 Thousands of U.S. dollars (Note 1)
Net Sales (Note 13)	¥929,507	¥925,918	$7,877,178
Costs and Expenses (Note 13):			
Cost of sales	265,201	290,736	2,247,466
Selling, general and administrative expenses	357,330	321,738	3,028,220
Research and development expenses	170,662	158,716	1,446,289
	793,193	771,190	6,721,975
Operating Income (Note 13)	136,314	154,728	1,155,203
Other Income (Expenses):			
Interest and dividend income	11,273	5,322	95,534
Derivative gain (loss)	2,640	(460)	22,373
Interest expense	(252)	(313)	(2,136)
Gain from the return of the substitutional portion of the employees' pension fund to the government (Note 10)	—	164	—
Loss on settlement of vitamin-related anti-trust litigations	—	(1,126)	—
Gain on sale of property, plant and equipment	4,315	4,897	36,568
Gain on sale of investments in affiliates	59,347	1,180	502,941
Gain on adjustment to prior-year R&D expenses	1,609	—	13,636
Gain on sale of investment securities	8,222	650	69,678
Loss on disposal of property, plant and equipment	(3,623)	(5,550)	(30,703)
Loss on business integration (Note 9)	(82,479)	(9,893)	(698,975)
Loss on impairment of long-lived assets (Note 9)	(4,916)	(5,254)	(41,661)
Provision for contingent losses	(166)	(3,380)	(1,407)
Provision for soil remediation costs	(2,876)	(2,850)	(24,373)
Restructuring charge	(3,610)	(1,153)	(30,593)
Other, net	1,115	(70)	9,449
	(9,401)	(17,836)	(79,669)
Income before Income Taxes and Minority Interests	126,913	136,892	1,075,534
Income Taxes (Note 8):			
Income tax expense—current	64,710	54,207	548,390
Income tax benefit—deferred	(16,631)	(5,011)	(140,941)
Income before Minority Interests	78,834	87,696	668,085
Minority Interests in Net Income of Consolidated Subsidiaries	(284)	(3)	(2,407)
Net Income	¥ 78,550	¥ 87,693	$ 665,678

	Yen	Yen	U.S. dollars (Note 1)
Amounts per Share of Common Stock (Note 2):			
Net income	¥ 107.75	¥119.49	$0.91
Diluted net income	—	119.47	—
Cash dividends applicable to the year	60.00	25.00	0.51

See accompanying notes.

Consolidated Statements of Change in Net Assets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen								
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2005	735,011	¥50,000	¥180,027	¥956,658	¥(69,028)	¥44,097	¥8,332	¥11,017	¥1,181,103
Loss on disposal of treasury stock		—	(169)	—	—	—	—	—	(169)
Net income		—	—	87,693	—	—	—	—	87,693
Cash dividends (¥25.00 per share)		—	—	(17,311)	—	—	—	—	(17,311)
Share transfer payment		—	—	(17,168)	—	—	—	—	(17,168)
Bonuses to directors		—	—	(406)	—	—	—	—	(406)
Retirement of treasury stock		—	—	(72,419)	—	—	—	—	(72,419)
Loss on sale of treasury stock		—	—	(298)	—	—	—	—	(298)
Decrease due to changes in scope of consolidation		—	—	(236)	—	—	—	—	(236)
Adjustment of net unrealized holding gains on securities		—	—	—	—	36,158	—	—	36,158
Adjustment from translation of foreign currency financial statements		—	—	—	—	—	(7,597)	—	(7,597)
Decrease in treasury stock		—	—	—	59,196	—	—	—	59,196
Increase in minority interests		—	—	—	—	—	—	593	593
Balance at March 31, 2006	735,011	¥50,000	¥179,858	¥936,513	¥(9,832)	¥80,255	¥735	¥11,610	¥1,249,139
Gain on sale of treasury stock		—	2	—	—	—	—	—	2
Net income		—	—	78,550	—	—	—	—	78,550
Cash dividends (¥55.00 per share)		—	—	(40,097)	—	—	—	—	(40,097)
Bonuses to directors		—	—	(344)	—	—	—	—	(344)
Decrease due to changes in scope of consolidation		—	—	(3,007)	—	—	—	—	(3,007)
Decrease due to change in number of equity-method affiliates		—	—	(132)	—	—	—	—	(132)
Changes in net unrealized holding gains on securities		—	—	—	—	(7,896)	—	—	(7,896)
Changes in translation of foreign currency financial statements		—	—	—	—	—	4,216	—	4,216
Changes in treasury stock		—	—	—	(164)	—	—	—	(164)
Changes in minority interests		—	—	—	—	—	—	(8,119)	(8,119)
Balance at March 31, 2007	735,011	¥50,000	¥179,860	¥971,483	¥(9,996)	¥72,359	¥4,951	¥3,491	¥1,272,148

	Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	735,011	$423,729	$1,524,220	$7,936,551	$(83,322)	$680,127	$6,229	$98,390	$10,585,924
Gain on sale of treasury stock		—	17	—	—	—	—	—	17
Net income		—	—	665,678	—	—	—	—	665,678
Cash dividends ($0.51 per share)		—	—	(339,805)	—	—	—	—	(339,805)
Bonuses to directors		—	—	(2,915)	—	—	—	—	(2,915)
Decrease due to changes in scope of consolidation		—	—	(25,483)	—	—	—	—	(25,483)
Decrease due to change in number of equity-method affiliates		—	—	(1,119)	—	—	—	—	(1,119)
Changes in net unrealized holding gains on securities		—	—	—	—	(66,915)	—	—	(66,915)
Changes in translation of foreign currency financial statements		—	—	—	—	—	35,728	—	35,728
Changes in treasury stock		—	—	—	(1,390)	—	—	—	(1,390)
Changes in minority interests		—	—	—	—	—	—	(68,805)	(68,805)
Balance at March 31, 2007	735,011	$423,729	$1,524,237	$8,232,907	$(84,712)	$613,212	$41,957	$29,585	$10,780,915

Consolidated Statements of Cash Flows

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	2007 Millions of yen	2006 Millions of yen	2007 Thousands of U.S. dollars (Note 1)
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥126,913	¥136,892	$1,075,534
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	39,987	41,129	338,873
Loss on impairment long-lived assets	4,916	5,254	41,661
Amortization of goodwill	3,596	1,424	30,475
Increase (decrease) in allowance for doubtful accounts	5	(27)	42
Decrease in accrued severance and retirement benefits	(28,547)	(3,315)	(241,924)
Increase in prepaid pension costs	(714)	(1,814)	(6,051)
Interest and dividend income	(11,273)	(5,322)	(95,534)
Interest expense	252	313	2,136
Gain on sales of investment securities	(8,200)	(650)	(69,492)
Gain on sales of investments in affiliates	(59,347)	(1,180)	(502,941)
Gain (loss) on disposal of property, plant and equipment	(692)	653	(5,864)
Loss on settlement of vitamin-related anti-trust litigations	—	1,126	—
Equity in net losses of affiliated companies	18	349	153
Decrease in trade notes and accounts receivable	16,795	11,652	142,330
Decrease in inventories	1,684	8,252	14,271
Increase (decrease) in trade notes and accounts payable	3,294	(6,990)	27,915
Increase (decrease) in accounts payable and accured expenses	56,551	(3,362)	479,246
Other, net	12,299	(2,470)	104,229
Subtotal	157,537	181,914	1,335,059
Interest and dividends received	11,099	5,286	94,059
Interest paid	(251)	(313)	(2,127)
Fines, penalties and legal settlement paid	—	(1,126)	—
Income taxes paid	(61,955)	(53,001)	(525,042)
Net cash provided by operating activities	106,430	132,760	901,949
Cash Flows from Investing Activities:			
Purchases of time deposits	(6,621)	(5,140)	(56,110)
Proceeds from maturities in time deposits	5,403	4,409	45,788
Purchases of marketable securities	(148,217)	(86,578)	(1,256,076)
Proceeds from sales of marketable securities	165,049	119,972	1,398,720
Acquisitions of property, plant and equipment	(28,066)	(41,798)	(237,847)
Proceeds from sales of property, plant and equipment	11,450	5,471	97,034
Acquisitions of intangible assets	(14,886)	(6,788)	(126,153)
Acquisitions of investment securities	(37,483)	(38,975)	(317,653)
Proceeds from sales of investment securities	14,157	16,095	119,975
Acquisitions of investments in subsidiaries from minority interest	(571)	(10,268)	(4,839)
Acquisition of investments in newly consolidated subsidiaries (Note 3)	(27,210)	—	(230,593)
Proceeds from sales of investments in consolidated subsidiaries resulting in changes in scope of consolidation (Note 3)	91,020	642	771,356
Net decrease in short-term loans receivable	16,137	—	136,754
Payment for loans receivable	(1,365)	(2,451)	(11,568)
Proceeds from collection of loans receivable	5,893	1,837	49,941
Other, net	616	4,313	5,220
Net cash provided by (used in) investing activities	45,306	(39,259)	383,949
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term bank loans	1,312	(2,287)	11,119
Proceeds from long-term debt	—	1,110	—
Repayments of long-term debt	(297)	(1,204)	(2,517)
Purchases of treasury stock	(173)	(16,611)	(1,466)
Proceeds from sale of treasury stock	10	2,920	85
Dividends paid	(40,050)	(17,327)	(339,407)
Share transfer payments	—	(17,168)	—
Other, net	(1,571)	460	(13,314)
Net cash used in financing activities	(40,769)	(50,107)	(345,500)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	400	3,794	3,390
Net increase in Cash and Cash Equivalents	111,367	47,188	943,788
Cash and Cash Equivalents, Beginning of Year	400,967	354,102	3,398,025
Increase (decrease) in Cash and Cash Equivalents due to Changes in Scope of Consolidation	878	(323)	7,441
Cash and Cash Equivalents at End of Year (Note 3)	¥513,212	¥400,967	$4,349,254

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of DAIICHI SANKYO COMPANY, LIMTED (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of consolidated statements of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany balances, transactions and profits have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control.

The equity method is applied, with minor exception, to the 20 to 50 % owned affiliated companies whereby the Company has the ability to exercise significant influence over the operational and financial policies of a company, and certain immaterial subsidiaries not consolidated.

The goodwill, which is the difference between the investment and the net assets of the subsidiary, is amortized over 5 or 10 years.

Daiichi Sankyo INC. and Luitpold Pharmaceuticals Inc. , the Company's consolidated subsidiaries, changed their fiscal year-end from December 31 to March 31 effective from this fiscal year.

As a result, while the financial statements of these subsidiaries as of December 31, 2005 were used in the preparation of the Consolidated Financial Statements for the fiscal year ended March 31, 2006, due to these changes in fiscal year-end, the consolidated financial statements for the fiscal year ended March 31, 2007 include 15-month results of the two subsidiaries (for the period from January 1, 2006 to March 31, 2007).

The net effect of these changes in fiscal year-end on the consolidated statement of income for the fiscal year ended March 31, 2007 were increases in net sales, operating income, income before income taxes and minority interests, and net income of ¥31,514 million ($267,068 thousand), ¥9,030 million ($76,525 thousand), ¥9,587 million ($81,246 thousand) and ¥5,830 million ($49,407 thousand), respectively.

Business Combination

The Company was established through a joint stock transfer by Sankyo Company, Limited ("Sankyo") and Daiichi Pharmaceutical Co., Ltd. ("Daiichi") and became the parent company of its wholly-owned subsidiaries at September 28, 2005. This integration of both wholly-owned subsidiaries (Sankyo and Daiichi) has been judged as a combination of interest, in consideration of the contents of business, financial conditions and earnings records of these subsidiaries and because they jointly would bear Daiichi Sankyo Group's risk and enjoy the Group's benefit. In the fiscal year ended March 31, 2006, the Company accounted for this business combination using the pooling of interests method in accordance with "Consolidation Procedure for Full Parent-subsidiary Relationship Established Utilizing Share Exchange and Transfer System" (JICPA Accounting Committee Research Report No. 6) and, accordingly, the assets and liabilities of Sankyo and Daiichi are combined at their book value. In addition, the Consolidated Statement of Income gives effect to the transaction as if the transaction occurred at the beginning of the fiscal year presented, regardless of when the Combination was in effect. As there are no accounting requirements for the financial statements to be restated for prior periods under Japanese GAAP, the opening balances of the fiscal year in the Consolidated Statement of Changes in Net Assets are presented, assuming the Company has existed as of April 1, 2005.

Cash and cash equivalents and cash flow statements

For the purpose of the consolidated statements of cash flows, the Companies classify cash on hand, readily available bank deposits and short-term, highly liquid investments with maturities of no more than three months at the time of purchase as cash and cash equivalents.

Marketable securities and investment securities

The Companies examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities")

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at the moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains or losses on the sale of such securities are computed using the moving-average cost. The Companies have no trading securities.

Derivative transactions

Derivatives are, in principle, stated at market value. Certain subsidiaries enter into derivative agreements, such as forward foreign exchange contracts, currency options, call options on specific stocks and interest-rate swaps, in order to manage the risk arising from fluctuation in foreign currency exchange rates, stock prices and interest rates. Forward foreign exchange contracts and currency options are utilized to hedge risks arising from changes in foreign currency exchange rates in relation to imports and exports. Interest-rate swaps are utilized to manage interest-rate risk on debts. Call options on specific stocks are utilized to avoid the risk of fluctuation in stock prices relating to stock appreciation rights. The Company and its subsidiaries do not enter into derivative transactions for speculative trading purposes.

Deferred hedge accounting is basically adopted. Interest-rate swaps which meet the criteria to qualify as hedges and satisfy certain criteria are accounted for by a special method stipulated in the accounting standard, as if the interest rates on the swaps were originally applied to the underlying borrowings.

Forward foreign exchange contracts and currency options which meet hedging criteria are accounted for by the allocation method. The allocation method requires that recognized foreign currency receivables or payables be translated at the underlying exchange rates in the corresponding forward foreign exchange contracts and currency options. The subsidiaries which have derivatives positions have also developed hedging policies to control various aspects of these transactions, including establishing authorization levels and limits of transaction volumes. The effectiveness of the interest-rate swaps accounted for by the special method as highly qualified hedges has not been assessed, as permitted under the standard.

The effectiveness of the forward foreign exchange contracts and the currency options as hedges has also not been assessed as the conditions of these transactions are principally the same.

Inventories

Inventories are accounted for at the lower of cost and market, cost being determined principally by the weighted-average method.

Property, plant and equipment

Depreciation of property, plant and equipment (except for certain buildings) is computed by the declining-balance method based on the estimated useful lives of the respective assets as to the Company and its domestic consolidated subsidiaries.

Depreciation of buildings (other than structures attached to the buildings) acquired on and after April 1, 1998 by the Company and its domestic consolidated subsidiaries is computed by the straight-line method.

As to the overseas consolidated subsidiaries, depreciation of property, plant and equipment is computed principally by the straight-line method.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 4 to 7 years for machinery, equipment and vehicles.

Retirement benefits

Retirement benefits covering all employees are basically provided through the following two arrangements: an unfunded lump-sum benefit plan and a non-contributory funded pension plan. Upon retirement or termination of employment, employees are generally entitled to lump-sum or annuity payments based on their current rate of pay, length of service and cause of termination.

The Companies provide for accrued employees' severance and retirement benefits at year–end based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

Certain of the overseas consolidated subsidiaries provide for such accruals in accordance with accounting principles generally accepted in the countries of their domicile.

Actuarial gains or losses are recognized as income or expenses in equal amounts over a period of 5 to 10 years commencing from the succeeding period, except for Sankyo which recognizes actuarial gains or losses immediately as they occur.
Prior service costs are recognized as expenses in equal amounts over a period of 5 to 10 years including the year in which such costs were incurred.

Retirement benefits to directors and corporate statutory auditors of the Company were calculated based on the established guidelines. Payment of such benefits is subject to approval at the shareholders' meeting.

Research and development

Research and development expenses are charged to income when incurred.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date of the overseas subsidiaries, shareholders' equity accounts at historical rates and expenses and income at average rates of exchange during the year. The resulting foreign currency translation adjustment is reported as a separate component of net assets.

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Amounts per share

In computing net income per share of common stock, the average number of shares issued during each fiscal year has been used. For diluted net income per share, both net income and shares outstanding were adjusted to assume the exercise of stock warrants.

Cash dividends per share represent actual amounts applicable to the respective years.

Accounting Standard for Presentation of Net Assets in the Balance sheet

Effective from the fiscal year ended March 31,2007,the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet"("Statement No.5" issued by the Accounting Standards Board of Japan on December 9,2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("the Financial Accounting Standard Implementation Guidance No.8"issued by the Accounting Standards Board of Japan on December 9,2005),(collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and the shareholders' equity sections.The net assets section now includes minority interests, which had been presented between non-current liabilities and the previously presented shareholders' equity under the previous presentation rules.

The previously presented shareholders' equity for 2006 has been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥11,610 million are included in the net assets section of the balance sheet as of March 31, 2006.

Accounting standard for Statement of Changes in Net Assets

Effective from the fiscal year ended Mach 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement of Changes in Net Assets"("Statement No.6"issued by the Accounting Standards Board of Japan on December 27, 2005), and " the Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets"("the Financial Accounting Standard Implementation Guidance No.9" issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the consolidated statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Based on the reclassification of the previously presented shareholders' equity for 2006 as discussed in Note 2 "Accounting Standard for Presentation of Net Assets in the Balance Sheet", the consolidated statement of changes in net assets for 2006 have been prepared in accordance with the New Accounting Standards. As a result, minority interest of ¥11,610 million, which was not included in the 2006 consolidated statements of shareholders' equity, is now presented in the consolidated statements of changes in net assets.

Accounting Standard for Directors' and Corporate Auditors' Bonuses

Under the previous accounting standard, bonuses to directors and corporate auditors were recorded as appropriations of retained earnings. Effective in the fiscal year ended March 2007, the Company adopted the provisions of "the Accounting standards for Directors' Bonuses"("Statement No.4" issued by the Accounting Standards Board of Japan on November 29, 2005) under which such bonuses are expensed as incurred on an accrual basis.

As a result of adopting this accounting standard, both operating income and net income before income taxes were decreased by ¥306 million ($2,593 thousand) for the year ended March 31, 2007.

Accounting Standard for Business Combination

Effective from the fiscal year ended March 2007, the Company adopted the provisions of "Accounting Standard for Business Combination" (Corporate Accounting Deliberation Council; October 31, 2003), as well as "Accounting Standard for Business Separation (Corporate Accounting Standard No. 7; December 27, 2005) and the related "Implementation Guidelines on Accounting Standards for Business Combination and Business Separation" (Corporate Accounting Standard Implementation Guidelines No. 10; December 27, 2005).

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, as described in Note 2, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as for 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007 and 2006 for the consolidated statements of cash flows consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥232,615	¥223,979	$1,971,314
Less time deposits with maturities extending over three months	(2,146)	(2,902)	(18,187)
Add short-term investments with maturities within three months	282,743	179,890	2,396,127
Cash and cash equivalents	¥513,212	¥400,967	$4,349,254

In the year ended March 31, 2006, the Company excluded Nippon Daiya Valve Co., Ltd and F.P. Kakou Co., Ltd. from the scope of consolidation. The amounts of assets and liabilities of the two companies at the time they were excluded from the consolidation, related sales prices of shares amount and proceeds from sales of the investments were as follows:

	Millions of yen
Current assets	¥4,452
Non-current assets	939
Current liabilities	(3,526)
Long-term liabilities	(561)
Gain on sale of shares, net	(303)
Sales prices of shares	1,001
Cash and cash equivalents owned by the subsidiaries	(359)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥ 642

In the year ended March 31, 2007, the Company excluded Wakodo Co.,Ltd , Sankyo Agro Co.,Ltd., Daiichi Radioisotope Laboratories,Ltd., Daiichi Pure Chemicals Co.,Ltd. and other 8 companies from the scope of consolidation. The amounts of assets and liabilities of these companies at the time they were excluded from the consolidation, related sales prices of shares amount and proceeds from sales of the investments were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥82,292	$697,390
Non-current assets	39,423	334,093
Current liabilities	(59,247)	(502,093)
Long-term liabilities	(9,841)	(83,398)
Net unrealized gain on investment securities	1	8
Minority interests	(6,059)	(51,347)
Gain on sale of shares, net	58,443	495,279
Sales prices of shares	105,012	889,932
Cash and cash equivalents owned by the subsidiaries	(13,992)	(118,576)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥91,020	$771,356

In the year ended March 31, 2007, the Company newly consolidated Zepharma Inc. .

The amounts of assets and liabilities of Zepharma Inc. at the beginning of the consolidation period used for consolidation purposes and the acquisition of investments in newly consolidated subsidiary was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥19,639	$166,432
Non-current assets	17,266	146,322
Goodwill	12,207	103,449
Current liabilities	(7,169)	(60,754)
Long-term liabilities	(6,190)	(52,458)
Purchase price of the subsidiary	35,753	302,991
Cash and cash equivalents owned by the subsidiary	(8,543)	(72,398)
Acquisition of investments in newly consolidated subsidiary	¥27,210	$230,593

4. MARKET VALUE INFORMATION FOR SECURITIES

(1) At March 31, 2007 and 2006, the acquisition costs, carrying amounts and fair market values of securities with available market values were as follows:

(a) Held-to-Maturity Securities with Determinable Market Values

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Securities with market values greater than their carrying amounts:			
Carrying amount	¥80,141	¥ 23,808	$679,161
Market value	80,620	23,867	683,220
Difference	¥ 479	¥ 59	$ 4,059
Securities with fair value not exceeding book value:			
Carrying amount	¥89,759	¥126,093	$760,669
Market value	89,211	124,951	756,025
Difference	¥ (548)	¥ (1,142)	$ (4,644)

(b) Available-for-Sale Securities with Determinable Market Value

	2007		
	Millions of yen		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥40,051	¥161,457	¥121,406
Bonds	1,120	1,187	67
Others	2,099	2,732	633
Total	¥43,270	¥165,376	¥122,106
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥ 180	¥ 165	¥ (15)
Bonds	9,447	9,447	—
Others	505	481	(24)
Total	¥10,132	¥ 10,093	¥ (39)

	2006		
	Millions of yen		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥38,949	¥172,059	¥133,110
Bonds	1,120	1,227	107
Others	2,155	3,276	1,121
Total	¥42,224	¥176,562	¥134,338
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥64	¥ 60	¥ (4)
Bonds	17,097	17,097	—
Others	211	205	(6)
Total	¥17,372	¥ 17,362	¥ (10)

	2007		
	Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	$339,415	$1,368,279	$1,028,864
Bonds	9,492	10,060	568
Others	17,788	23,153	5,365
Total	$366,695	$1,401,492	$1,034,797
Securities with carrying amounts at or less than their acquisition costs:			
Stock	$ 1,525	$ 1,398	$(127)
Bonds	80,059	80,059	—
Others	4,280	4,077	(203)
Total	$ 85,864	$ 85,534	$ (330)

The Companies recognized ¥ 301 million as impairment losses of available-for-sale securities with determinable market value in the year ended at March 31, 2006.

(2) At March 31, 2007 and 2006, carrying amounts of securities without determinable market values were as follows:

(a) Held-to-maturity securities

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Certificates of deposit	¥ —	¥12,000	$ —
Commercial paper	151,102	84,982	1,280,525
Others	10	10	85

(b) Available-for-sale securities

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Money management fund, etc.	¥116,289	¥65,812	$985,500
Unlisted stock	10,314	11,847	87,407
Others	11,805	10,267	100,042

(3) At March 31, 2007 and 2006, available-for-sale securities with maturities and held-to-maturity securities were as follows:

	2007				
	Millions of yen				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥ 55,709	¥ 7,838	¥ —	¥—	¥ 63,547
Corporate bonds	41,216	57,136	8,000	—	106,352
Others	151,102	10	—	—	151,112
Others:	133	1,055	—	—	1,188
Total	¥248,160	¥66,039	¥8,000	¥—	¥322,199

	2006				
	Millions of yen				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥ 40,404	¥ 2,994	¥ —	¥—	¥ 43,398
Corporate bonds	54,206	41,281	11,016	—	106,503
Others	96,992	—	—	—	96,992
Others:	—	1,227	—	—	1,227
Total	¥191,602	¥45,502	¥11,016	¥—	¥248,120

	2007				
	Thousands of U.S. dollars				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	$ 472,110	$ 66,424	$ —	$—	$ 538,534
Corporate bonds	349,288	484,203	67,797	—	901,288
Others	1,280,525	85	—	—	1,280,610
Others:	1,127	8,941	—	—	10,068
Total	$2,103,050	$559,653	$67,797	$—	$2,730,500

(4) Available-for-sale securities sold during the year ended March 31, 2007 and 2006 were as follows:

2007		
Millions of yen		
Sales amount	Total gain	Total loss
¥10,367	¥8,583	¥14

2006		
Millions of yen		
Sales amount	Total gain	Total loss
¥4,593	¥752	¥207

2007		
Thousands of U.S. dollars		
Sales amount	Total gain	Total loss
$87,856	$72,737	$ 119

5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Finished goods	¥ 56,140	¥ 62,457	$475,763
Work in process and semi-finished products	33,401	33,662	283,059
Raw materials and supplies	18,218	25,575	154,390
	¥107,759	¥121,694	$913,212

6. LEASE INFORMATION

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2007 and 2006 were as follows:

	2007		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other	¥ 10,228	¥ (5,752)	¥ 4,476

	2006		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other	¥ 21,117	¥ (12,718)	¥ 8,399

	2007		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other	$86,678	$(48,746)	$37,932

Future lease payments at March 31, 2007 and 2006, inclusive of interest under such leases, were as follows:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	¥1,581	¥3,176	$13,398
Due after one year	2,895	5,223	24,534
	¥4,476	¥8,399	$37,932

Total expenses for finance leases which do not transfer ownership to lessees and assumed depreciation charges for the year ended March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total expenses	¥2,829	¥4,469	$23,975
Assumed depreciation charges	¥2,829	¥4,469	$23,975

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The weighted-average interest rates on short-term bank loans outstanding were 1.3% and 0.9% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Secured loans principally from banks and insurance companies, with interest rates ranging from 1.5% to 5.9%	¥1,833	¥4,274	$15,534
Less amount due within one year	(300)	(899)	(2,542)
	¥1,533	¥3,375	$12,992

At March 31, 2007 and 2006, property, plant and equipment amounting to ¥4,570 million ($ 38,729 thousand) and ¥5,568 million, respectively and at March 31,2006, investment securities of ¥766million were mortgaged or pledged as collateral to secure long-term debt.

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 300	$ 2,542
2009	345	2,924
2010	345	2,924
2011	345	2,924
2012	329	2,788
2013 and thereafter	169	1,432
	¥1,833	$15,534

The Company and its consolidated subsidiaries entered into lines of credit agreements with the various banks in order to borrow their operating funds efficiently. At March 31, 2007 and 2006, unused lines of credit amounted to ¥30,000 million ($ 254,237 thousand) and ¥63,000 million, respectively.

8. INCOME TAXES

Taxes on income consist of corporation tax, inhabitants' taxes and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests in net income of consolidated subsidiaries was approximately 40.5% for the year ended March 31, 2007 and 2006, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The actual effective tax rates in the consolidated statements of income differ from the aggregate statutory tax rate principally because of the effect of expenses not deductible for tax purposes. The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2007 and 2006:

	2007	2006
Statutory tax rate	40.5%	40.5%
Expenses not deductible for income tax purposes	6.3	5.2
Dividend income deductible for income tax purposes	(0.7)	(1.0)
Decrease in valuation allowance	(4.6)	(3.1)
Tax credit for research and development expenses	(5.4)	(6.2)
Other	1.8	0.5
Effective tax rates	37.9%	35.9%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:			
Accrued severance and retirement benefits	¥ 13,637	¥25,879	$115,568
Prepaid consigned research and co-development expenses	27,748	21,546	235,152
Depreciation	17,737	16,915	150,314
Net operating loss carry forwards for income tax purposes	14,856	15,840	125,898
Accrued bonuses	9,387	10,331	79,551
Unrealized profit on inventories and loss on valuation of inventories	16,374	8,009	138,763
Unrealized holding gains on property, plant and equipment	5,500	6,107	46,610
Impairment losses	5,046	4,403	42,763
Accrued enterprise taxes	2,499	2,182	21,178
Other	23,839	20,679	202,025
Valuation allowance	(23,534)	(32,484)	(199,441)
Total deferred tax assets	113,089	99,407	958,381
Deferred tax liabilities:			
Net unrealized holding gain on investment securities	(50,171)	(55,031)	(425,178)
Reserve for reduction in bases of property, plant and equipment for income tax purposes	(9,260)	(9,604)	(78,474)
Prepaid pension costs	(7,297)	(6,949)	(61,839)
Intangible assets	(4,766)	—	(40,390)
Other	(5,485)	(3,468)	(46,483)
Total deferred tax liabilities	(76,979)	(75,052)	(652,364)
Net deferred tax assets	¥ 36,110	¥ 24,355	$306,017

Net deferred tax assets as of March 31, 2007 and 2006 were included in the following accounts of the consolidated balance sheets.

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Deferred income taxes (assets):			
Current	¥ 63,365	¥ 40,911	$ 536,992
Non-current	8,891	7,403	75,347
Deferred income taxes (liabilities):			
Current	—	32	—
Non-current	36,146	23,927	306,322

9. OTHER INCOME (EXPENSES)

(1) Loss on business integration

The loss represents non-recurring costs associated with integration of the pharmaceutical operations of the Companies. The amounts consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Supplemental retirement benefits, etc.	¥54,212	—	$459,424
IT systems related expenses	11,096	—	94,034
Expenses associated with the consolidation and closure of operating locations	3,256	—	27,593
Expenses associated with the integration of overseas operations	3,225	7,087	27,331
Expenses associated with the integration of healthcare business	3,353	968	28,415
Other research expenses, etc.	7,337	1,838	62,178

(2) Loss on impairment of long-lived assets

The Companies categorized their assets for their business operations into groups on which are based income/loss management in managerial accounting, taking into consideration the similarity in the type of products and business activities, the consistency as a business group and the continuity of management in the future, and individually categorized their assets for lease and unutilized assets that are not directly used for business.

In the years ended March 31, 2007 and 2006, the Companies recognized loss on impairment in the following asset groups:

(Fiscal 2007)

Location	Function	Asset type	Status
Shimotsuke, Tochigi	Former Tochigi Research Center facility	Buildings, land, etc.	Idle
Tosu, Saga	Former Kyushu Distribution Center facility	Buildings, land, etc.	Idle
Kasukabe, Saitama	Former Tokyo Distribution Center facility	Buildings	Idle
Iwaki, Fukushima, etc.	Dormitory/recreation facility	Buildings, land	Idle
Bunkyo-ku, Tokyo	Office	Building	Idle
Shinagawa-ku, Tokyo, etc.	ERP packages	Software	Idle

(Fiscal 2006)

Location	Function	Asset type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and structures, machinery, equipment and vehicles, etc.	Idle
Shiraishi-ku, Sapporo-shi	Former Sapporo Distribution, Center facility	Land	Idle
Shimotoga-gun, Tochigi	Former Tochigi Research Center facility	Buildings and structures, land, etc.	Idle
Tsuchiura, Ibaraki	Company housing, etc.	Land	Idle
Sanbu, Chiba	Chiba plant site	Land	Idle

Because the above asset groups are idle and have uncertain prospects for future utilization, their book values have been written down to a recoverable amount, and such reductions in the amount of ¥4,916 million ($41,661 thousand) and ¥5,254 million were recorded as loss on impairment of long-lived assets for the years ended March 31, 2007 and 2006, respectively.
The amounts consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥2,103	¥2,443	$17,822
Machinery, equipment and vehicles	33	1,889	280
Land	407	902	3,449
Software	2,368	—	20,068
Other	5	20	42

The recoverable amount of an assets group represents an estimated net realizable value, which was obtained based on third-party appraisal or the valuation amount for real estate tax purpose, after making reasonable adjustments.

10. RETIREMENT AND TERMINATION BENEFITS PLANS

Sankyo and its domestic consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans and tax-qualified pension benefit plans as their primary defined benefit arrangement. In addition, certain of its domestic consolidated subsidiaries participate in a multi-employer welfare pension fund plan. Daiichi and its domestic subsidiaries have adopted the group-wide retirement benefit arrangement comprising of a defined benefit corporate pension plan and a defined contribution pension plan.

Certain overseas consolidated subsidiaries provide a defined benefit plan or a defined contribution plan.

Additional retirement benefits which are not subject to the actuarial valuation in accordance with the accounting standards for the severance and retirement benefits may be paid to employees upon retirement.

Sankyo offered an early-retirement program and the Company implemented the accounting method of a termination of a pension plan in accordance with the "Accounting for transfer between pension plans" ("the Financial Accounting Standard Implementation Guidance No.1" issued by the Accounting Standards Board of Japan on January 31,2002) to account for the early retirement and resulting transfer to its subsidiaries under the program.

Retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(109,179)	¥(148,161)	$(925,246)
Plan assets at fair value	92,664	97,910	785,288
Under-funded projected benefit obligations in excess of plan assets	(16,515)	(50,251)	(139,958)
Unrecognized actuarial losses	(227)	2,065	(1,923)
Unrecognized prior service costs	(299)	(2,828)	(2,534)
Net pension liabilities recognized in the consolidated balance sheet	(17,041)	(51,014)	(144,415)
Prepaid pension assets	18,022	17,308	152,729
Accrued employees' severance and retirement benefits	¥ (35,063)	¥ (68,322)	$(297,144)

The plan assets in the multi-employer welfare pension fund, estimated based on the domestic consolidated subsidiaries' contribution ratio since the amount attributable to their contributions cannot be calculated reasonably, totaled ¥4,099 million ($ 34,737 thousand) and ¥8,891 million at March 31, 2007 and 2006 respectively. These amounts have not been included in the plan assets presented above.

In the fiscal year ended March 31, 2007, due to the retirement of a large number of employees at Sankyo, each of projected benefit obligation, unrecognized prior service costs and plan assets were decreased by ¥30,050 million ($254,661 thousand), ¥1,142 million ($9,687 thousand), and ¥603 million ($5,110 thousand) respectively.

Included in selling, general and administrative expenses in the consolidated statements of income for the years ended March 31, 2007 and 2006 are employees' severance and retirement benefit expenses consisting of the following:

	2007	2006	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Service costs for benefits earned	¥10,333	¥8,716	$ 87,568
Interest costs	3,172	3,272	26,881
Expected return on plan assets	(2,567)	(2,339)	(21,754)
Amortization of actuarial loss (gain)	404	(1,438)	3,424
Amortization of prior service costs	(763)	(871)	(6,466)
Additional retirement benefits and other	53,571	1,621	453,992
Gain from the return of the Substitutional portion of the employees' pension fund to the government	—	(164)	—
Other	808	885	6,847
Total	¥64,958	¥9,682	$550,492

The discount rates for calculating projected benefit obligation used by the Companies were principally 2.5% and the rates of expected return on plan assets used by the Companies were 2.5% to 3.0% at March 31, 2007 and 2006.

11. Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

The law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25%of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law both of these

appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on the condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on June 28,2007, the shareholders resolved cash dividends amounting to ¥21,870 million ($185,339 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31,2007, and are recognized in the period in which they were resolved.

12. COMMITMENTS AND CONTINGENCIES

At March 31, 2007, the Company and its consolidated domestic subsidiaries were contingently liable as guarantors for loans of employees and certain unconsolidated companies in the amount of ¥ 5,190 million ($43,983 thousand) and also contingently liable for trade notes receivable discounted with banks in the amount of ¥ 48 million ($407 thousand).

In the United States, numerous lawsuits seeking damages and other compensation were brought against Warner-Lambert Company and other pharmaceutical companies by certain patients who took the diabetes drug Rezulin, which had been sold until March 2000 using a compound whose generic name is troglitazone supplied by the Sankyo Company, Limited, a former wholly-owned subsidiary of the Company. A former U.S. subsidiary of the Company, Sankyo Pharma Inc. (currently, Daiichi Sankyo, INC.), is named as a defendant in a small portion of these cases, and it is defending these cases in cooperation with Warner-Lambert. In these cases, the compensation demanded from all defendants includes claims for both compensatory and punitive damages.

As to any costs (including damages) and the related liability by the Sankyo Company, Limited. and its subsidiaries, there is a provision in the license agreement with Warner-Lambert indemnifying the Sankyo Company, Limited and its subsidiaries, and this provision continues to be applicable to the Company.

13. SEGMENT INFORMATION

The Companies' primary business activities consist mainly of the Pharmaceuticals.

"Other" includes various remaining businesses such as agrochemicals, chemicals, and other. Net sales, costs and expenses and operating income by segment of business activities for the years ended March 31, 2007 and 2006 were as follows:

	2007			
	Millions of yen			
	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	¥837,116	¥92,391	¥ —	¥ 929,507
Inter-segment	352	3,298	(3,650)	—
Total sales	837,468	95,689	(3,650)	929,507
Operating expenses	706,099	91,312	(4,218)	793,193
Operating income	¥ 131,369	¥ 4,377	¥ 568	¥ 136,314
Identifiable assets	¥1,559,252	¥78,964	¥(1,381)	¥1,636,835
Depreciation	36,570	3,417	—	39,987
Impairment loss	4,916	—	—	4,916
Capital expenditures	42,398	3,886	—	46,284

	2006			
	Millions of yen			
	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	¥ 784,667	¥141,251	¥ —	¥ 925,918
Inter-segment	791	4,024	(4,815)	—
Total sales	785,458	145,275	(4,815)	925,918
Operating expenses	637,343	139,129	(5,282)	771,190
Operating income	¥ 148,115	¥ 6,146	¥ 467	¥ 154,728
Identifiable assets	¥1,429,425	¥169,660	¥(2,958)	¥1,596,127
Depreciation	35,796	5,333	—	41,129
Impairment loss	5,254	—	—	5,254
Capital expenditures	28,967	6,409	—	35,376

	2007			
	Thousands of U.S. dollars			
	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	$ 7,094,203	$782,975	$ —	$ 7,877,178
Inter-segment	2,983	27,949	(30,932)	—
Total sales	7,097,186	810,924	(30,932)	7,877,178
Operating expenses	5,983,890	773,831	(35,746)	6,721,975
Operating income	$ 1,113,296	$ 37,093	$ 4,814	$ 1,155,203
Identifiable assets	$13,214,000	$669,186	$(11,703)	$13,871,483
Depreciation	309,915	28,958	—	338,873
Impairment loss	41,661	—	—	41,661
Capital expenditures	359,305	32,932	—	392,237

As described in note 2, effective from the fiscal year ended March 2007 the Company adopted "the Accounting standards for Directors' Bonuses" ("Statement No. 4" issued by the Accounting Standards Board of Japan on November 29, 2005). As compared with the previous accounting method, the effects of adopting this standard were to increase operating expenses in the "Pharmaceuticals" segment by ¥232 million ($1,966 thousand) and in the "Other" segment by ¥74 million ($627 thousand), and to decrease operating income in the respective operating segments by the same amount.

Geographic segments are classified as Japan, North America and Other, according to the location of the companies. "Other" includes Europe, Asia, and others. Net sales, costs and expenses and operating income by geographic segment for the years ended March 31, 2007 and 2006 were as follows:

	2007				
	Millions of yen				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 667,852	¥191,466	¥70,189	¥ —	¥ 929,507
Inter-segment	81,943	41,240	17,044	(140,227)	—
Total sales	749,795	232,706	87,233	(140,227)	929,507
Operating expenses	637,080	195,421	79,603	(118,911)	793,193
Operating income	¥ 112,715	¥ 37,285	¥ 7,630	¥ (21,316)	¥ 136,314
Assets	¥1,454,251	¥183,524	¥94,757	¥ (95,697)	¥1,636,835

	2006				
	Millions of yen				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 752,794	¥116,061	¥57,063	¥ —	¥ 925,918
Inter-segment	21,554	18,213	5,805	(45,572)	—
Total sales	774,348	134,274	62,868	(45,572)	925,918
Operating expenses	644,098	108,817	62,690	(44,415)	771,190
Operating income	¥ 130,250	¥ 25,457	¥ 178	¥ (1,157)	¥ 154,728
Assets	¥1,452,287	¥132,455	¥59,042	¥(47,657)	¥1,596,127

	2007				
	Thousands of U.S. dollars				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	$ 5,659,763	$1,622,593	$594,822	$ —	$ 7,877,178
Inter-segment	694,432	349,491	144,441	(1,188,364)	—
Total sales	6,354,195	1,972,084	739,263	(1,188,364)	7,877,178
Operating expenses	5,398,983	1,656,110	674,602	(1,007,720)	6,721,975
Operating income	$ 955,212	$ 315,974	$ 64,661	$ (180,644)	$ 1,155,203
Assets	$12,324,161	$1,555,288	$803,026	$ (810,992)	$13,871,483

As described in note 2, effective from the fiscal year ended March 2007 the Company adopted "the Accounting standards for Directors' Bonuses" ("Statement No.4" issued by the Accounting Standards Board of Japan on November 29, 2005). As compared with the previous accounting method, the effects of adopting this standard were to increase operating expenses in the "Japan" segment by ¥306 million ($2,593 thousand) and to decrease operating income by the same amount.

The Companies' overseas business activities overseas consist mainly of those in North America and Europe. "Other" includes mainly Asia. A summary of overseas net sales by the Companies for the years ended March 31, 2007 and 2006 were as follows:

	2007			
	Millions of yen			
	North America	Europe	Other	Total
Overseas net sales	¥ 241,850	¥ 84,328	¥ 30,523	¥356,701
Consolidated net sales				929,507
Ratio of overseas net sales to a consolidated basis	26.0%	9.1%	3.3%	38.4%

	2006			
	Millions of yen			
	North America	Europe	Other	Total
Overseas net sales	¥ 182,615	¥ 98,440	¥ 26,210	¥ 307,265
Consolidated net sales				925,918
Ratio of overseas net sales to a consolidated basis	19.7%	10.6%	2.9%	33.2%

	2007			
	Thousands of U.S. dollars			
	North America	Europe	Other	Total
Overseas net sales	$ 2,049,576	$ 714,644	$ 258,670	$3,022,890
Consolidated net sales				7,877,178

14. SUBSEQUENT EVENTS

Proposal for Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2007 were resolved at the annual general meeting of shareholders of the Company held on June 28, 2007.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥30.00 ($0.25) per share	¥21,870	$185,339

Independent Auditors' Report

To the Board of Directors of
DAIICHI SANKYO COMPANY, LIMITED:

We have audited the accompanying consolidated balance sheets of DAIICHI SANKYO COMPANY, LIMITED and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAIICHI SANKYO COMPANY, LIMITED and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 28, 2007

Major Group Companies (Consolidated Subsidiaries)

(As of June 30, 2007)

Company	Country	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
DAIICHI SANKYO PROPHARMA CO., LTD.	Japan	¥100,000	100.0	Manufacturing of pharmaceuticals
DAIICHI SANKYO RD ASSOCIE CO., LTD.	Japan	¥50,000	100.0	Support of research and development in the group
DAIICHI SANKYO BUSINESS ASSOCIE CO., LTD.	Japan	¥50,000	100.0	Business support in the group
DAIICHI SANKYO HAPPINESS CO., LTD.	Japan	¥50,000	100.0	Business support in the group
DAIICHI SANKYO LOGISTICS CO., LTD.	Japan	¥50,000	100.0	Distribution and related affairs
DAIICHI SANKYO HEALTHCARE CO., LTD.	Japan	¥100,000	100.0	Manufacturing and sales of OTC drugs, cosmetics, medical equipments, food and beverage, among others
ASUBIO PHARMA CO., LTD.	Japan	¥11,000,000	100.0	Research, development, manufacturing and sales of pharmaceuticals
Sankyo Chemical Industries, Ltd.	Japan	¥65,000	100.0	Manufacturing and sales of intermediates
Sankyo Organic Chemicals Co., Ltd.	Japan	¥300,000	93.4	Manufacturing and sales of intermediates and industrial chemicals
Nippon Nyukazai Co., Ltd.	Japan	¥300,000	100.0	Manufacturing and sales of surface-active agents and fine chemicals
Hokkai Sankyo Co., Ltd.	Japan	¥331,000	80.0	Manufacturing and sales of agrochemicals etc.
DAIICHI SANKYO, INC.	U.S.A.	US$24,900	100.0	Research, development and sales of pharmaceuticals
Luitpold Pharmaceuticals, Inc.	U.S.A.	US$200	100.0	Manufacturing and sales of pharmaceuticals and veterinary
DAIICHI SANKYO EUROPE GmbH	Germany	€16,000	100.0	Development, manufacturing and sales of pharmaceuticals
DAIICHI SANKYO UK LTD.	U.K.	£19,500	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ESPAÑA, S.A.	Spain	€120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ITALIA S.p.A.	Italy	€120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO PORTUGAL LDA.	Portugal	€349	100.0	Sales of pharmaceuticals
DAIICHI SANKYO AUSTRIA GmbH	Austria	€18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (SCHWEIZ) AG	Switzerland	CHF3,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO NEDERLAND B.V.	The Netherlands	€18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO BELGIUM N.V.-S.A.	Belgium	€62	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ALTKIRCH SARL	France	€457	100.0	Manufacturing of raw materials for pharmaceuticals
DAIICHI SANKYO DEUTSCHLAND GmbH	Germany	€40	100.0	Sales of pharmaceuticals
DAIICHI SANKYO FRANCE SAS	France	€2,182	100.0	Sales of pharmaceuticals
DAIICHI SANKYO DEVELOPMENT LTD.	U.K.	£400	100.0	Development of pharmaceuticals

(As of June 30, 2007)

Company	Country	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
Shanghai Sankyo Pharmaceuticals Co., Ltd.	China	US$53,000	100.0	Research, development, manufacturing and sales of pharmaceuticals
Daiichi Pharmaceutical (Beijing) Co., Ltd.	China	US$63,800	100.0	Development, manufacturing and sales of pharmaceuticals
DAIICHI SANKYO HONG KONG LTD.	China	HK$3,000	100.0	Marketing of pharmaceuticals
DAIICHI SANKYO TAIWAN LTD.	Taiwan	NT$80,000	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO KOREA CO., LTD.	Korea	W3,000,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (THAILAND) LTD.	Thailand	Baht10,000	100.0	Import, sales and agency of pharmaceuticals/raw materials
DAIICHI SANKYO BRASIL FARMACÉUTICA LTDA.	Brazil	R$21,832	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO VENEZUELA, S.A.	Venezuela	VEB50,000	100.0	Manufacturing and sales of pharmaceuticals
Sino-Japan Chemical Co., Ltd.	Taiwan	NT$144,000	52.0	Manufacturing, sales, export and import of emulsifier and surface-active agents

Corporate Information (As of March 31, 2007)

CORPORATE DATA

Company Name: DAIICHI SANKYO COMPANY, LIMITED

Established: September 28, 2005

Headquarters: 3-5-1, Nihombashi Honcho, Chuo-ku, Tokyo 103-8426, Japan

URL: http://www.daiichisankyo.com

Business: Research & Development, Manufacturing and Sales & Marketing of pharmaceutical products

Paid-in Capital: ¥50,000 million

Employees: 15,358 (Consolidated)

STOCK INFORMATION

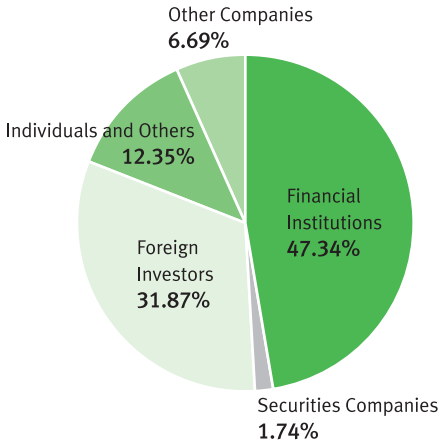
Common Stock

Number of shares authorized: 2,800,000,000

Number of shares issued: 735,011,343

Number of shareholders: 61,382

Distribution of Shareholders



Principal Shareholders

Ranking	Shareholders' names	Number of shares held	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust Account)	63,904,000	8.69
2	Japan Trustee Services Bank, Ltd. (Trust Account)	45,468,500	6.19
3	Nippon Life Insurance Company	41,839,182	5.69
4	The Chase Manhattan Bank NA, London SL, Omnibus Account	17,553,900	2.39
5	Sumitomo Mitsui Banking Corporation	13,413,368	1.82
6	State Street Bank and Trust Company	12,048,933	1.64
7	State Street Bank and Trust Company 505103	11,640,437	1.58
8	Japan Trustee Service Bank, Ltd. (Trust Account 4)	11,604,900	1.58
9	BNP Paribas Securities (Japan) Limited	10,237,442	1.39
10	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,468,983	1.28
Total		237,179,645	32.27

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